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a series of studies, entitled Recent Developments in the Rumanian Oil Industry, This series covers the following subjects:

- (a) Capital Interests in the Rumanian Oil Industry
- (b) Obligations under the Armistice Agreement
- (c) Sovrompetrol
- (d) The Appropriation of German Interests
- (e) The Soviet Monopolistic Policy
- (f) The Rumanian Contribution: Shares, Royalties, and Oil Field Concessions
- (g) The Soviet Contribution
- (h) The Policy toward Private Capital: During World War II, After the Armistice, and Monetary Stabilization
- (i) Socialization and its Aftermath
- (j) Prospects for the Rumanian Oil Industry: Oil Reserves, Divergent Interests and Outlook
- (k) The Convention for the Establishment of Sovrompetrol
- (l) Essential Figures, 7

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RECENT DEVELOPMENTS
IN THE
ROMANIAN PETROLEUM INDUSTRY

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I

CAPITAL INTERESTS IN THE ROMANIAN OIL INDUSTRY

Anybody who seeks to understand the recent history of Romania as well as her political evolution during the last thirty years should without fail also make a study of foreign interests in her oil industry, because it would be hard to find a better and more sensitive seismograph to measure the changing and swaying of the political balance in Europe.

Until 1916, Romania was part of the German Lebensraum and one of the intermediary points on their way to fulfill the policy of Drang nach Osten. Germany's economy was at that time in a state of over-capitalization and she needed outlets for both industrial output and financial means. Romania with her undeveloped economy due to almost 400 years of Turkish occupation offered ideal opportunities to the German industry and finance. They helped her rapid economic evolution and, in point of fact, controlled it to a very great extent. Although around 1914 the German share of capital invested in Romania industry was only 23.7 percent, German financial interests exercised an influence out of all proportion to this figure: the most powerful German banks, The Deutsche Bank and the Diskonto-Gesellschaft, were represented on no fewer than 148 of the Board of Directors of the most important Romanian corporations, and 75 percent of the Romanian pre-war external loans was covered by Berlin.

The 404 mil. gold lei invested capital in the oil industry before the First World War was divided among:

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German Interests	27.34%
Dutch	24.25%
British	23.64%
Romanian	8.10%
U. S. A.	6.19%
French	5.07%
Italian	1.85%
Other	3.56%

The provisions of Article 264 of the Versailles Treaty referring to German assets abroad were applied also directly or indirectly in Romania. They were frozen from the beginning and a small part was expropriated by the Romanian Government; it was not until 1930 that the few remaining assets were restituted. Meanwhile, the foreign capital, because of lack of Romanian capital, acquired the bulk of the German interests and, in this way, increased its investments and interests in this country. Apart from the lack of capital, the accumulation process, due to the inherent conditions of her post war economy, was a very slow one; thus, the Romanian Government was even obliged to practice a policy of encouragement of the penetration of foreign capital. The peak of her effort was reached with the monetary stabilization which expressly created very favorable conditions of high rentability for foreign investments. Unhappily, this effort was coupled with the outbreak of the world's greatest depression. As did many other countries, Romania also changed her attitude after this and followed the general trend of autarchic and protectionist policies.

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As a result of all these changes, post-war capital participations in the oil industry was obviously a different one. Thus, for instance, the German investments fell from 27.34 percent to 9.18 percent. The volume of exchange of goods or trade relations or trade between the two countries increased again after the conclusion of the great economic agreement of 1935. Compelled by her need to rearm, Romania passed increased orders to German industry. This tendency was substantially encouraged by the new German long term credit and financing policy practised throughout the Balkan countries. Hence, Germany disposed of steadily increasing assets on the Romanian market which helped her to acquire holdings in the oil industry. At the end of 1937, the Germans possessed a share of 1.64 percent and a year later one of 2.18 percent in this branch of industry. After the application of the provisions of the new mining law, foreign capital was interested in the then twelve billions of stabilized lei invested in the oil industry, in the following proportions:

British	31.25%
Romanian	29.65%
French	14.34%
Dutch	8.42%
U. S. A.	8.12%
Belgian	3.26%
German	2.18%
Other	2.78%

The Germans assiduously continued their penetration during the following years. They worked especially through the intermission of the Allgemeine Warenfinanz m.g.H., Berlin, Preussische Bergwerks-und.

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Hutten A.G., Gute Hoffnungs-Hutte A.G., Deutsche Petroleum A.G., Sudost-Chemie Agaur, later on, of the Continentale Oel A.G., etc. Most of their later acquisitions were made from the French and Belgian capital which, after the Munich agreement, started to liquidate and leave the East and Southeast of Europe to the Germans.

But this capital infiltration was also accomplished along different lines. In March 1939, owing to German pressure, Romania signed the famous Wohlthat Agreement. It provided for long economic collaboration between the two countries which had as its goal the transformation of the Romanian economy for German war aims. It also provided inter alia for the establishment of joint Romanian-German corporations for exploration, exploitation and marketing in the oil industry.

The change in Anglo-French policy temporarily thwarted the application of these provisions. After the change of the political regime in September 1940 and the cession of one-third of the Romanian territory, the military occupation of Romania by German troops followed. Their first target was the occupation of the oil lands and the taking of military measures for their protection against bombardment or acts of sabotage. Simultaneously, Romania signed both the Anti-Comintern Pact and an agreement for ten years' economic collaboration. The latter provided, among other things, for a greater participation of German capital in the Romanian oil industry, orientation of some pipe-lines towards Danubian harbours and the granting of substantial credits to the oil industry.

In 1941 a common drilling and exploration plan was drawn up

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through the intermission of the two State companies: A.C.E.X. and Continentale Oel. But previously the two governments had agreed upon a set of special conditions for exchanging armaments for oil at 1939 prices, known since as the "Oel Pakt".

The results of this collaboration are remarkably well expressed in terms of capital participation: it rose from 2.18 percent in 1939 to 11 percent in January 1941, and the Germans already controlled twelve important oil companies. The returns of the capital census of March 1942 showed that out of 8.043 mil. lei oil share capital of which had been taken a census, the Germans actually held 1.197 mil. lei, e.g., approximately 15 percent. Therefore, during an interval of six years, the German participation had risen from 0.18 percent to 15 percent. This rapid penetration was achieved equally by manoeuvring increases in capital, by amalgamations, by setting up new firms, as well as by acquisition of stock outside Romania from foreign holders. This trend continued, and by the conclusion of the armistice in 1944, the German participation was higher than the figure mentioned.

As for the oil export, this was bound by the stipulations of the Oel Pakt and disposed of in proportion to the initial unpreparedness for war of Romania and the increasing need for arms in the fight against Russia. Also most of the surplus oil found its way directly or indirectly to Germany. Many endeavours to send more oil products to hard currency countries were thwarted by the Germans either through their monopoly of transportation in Europe during the war or by granting some credits or disponsibilities in foreign currency to Romania. All

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in all, almost three-fourths of the Romanian oil export after 1940 went to Germany or German controlled areas.

This over simplified presentation of German penetration was necessary to enable a better understanding of the following phase: the Russian penetration which followed after the Armistice with Romania, (23rd of August 1944).

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II

OBLIGATIONS UNDER THE ARMISTICE AGREEMENT

According to the Soviet policy in all the "satellite" countries and later on in Germany of implementing the armistice agreements with reparation provisions in such a way that they could not be changed, thus assuming a mortgage on the future peace settlements, the Armistice with Romania stipulated the obligation of reparation payments to Russian but was silent concerning both the other allied and foreign interests and the technical conditions of the payment.

Moreover, Article 10 obliged the Romanian government, among other things, to ensure to the Soviet High Command, in case of need, the use on Romanian territory of industrial and transportation enterprises (....), stores of fuel, fuel oil and other materials and services in accordance with instructions issued by the Allied (Soviet) High Command. During the last four months of 1944, in accordance with this article, approximately one-fifth of the corresponding production was taken. In 1945 they raised this to almost ten percent of the oil production, but the demands for 1946 and 1947 fell below 100,000 tons annually. Needless to say, these quantities of oil have neither been paid for nor credited to the reparation payment; not even those taken after the cessation of hostilities in Europe.

Article 11 provided that, for losses caused to Russia by military operations and by occupation of Soviet territory, Romania is obliged to make compensation to the amount of 300,000,000 U. S. dollars, payable in six years in commodities; such as, oil products, grain,

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timber, river craft, machinery, etc.

The fulfillment conditions of this clause were agreed upon by a separate agreement between the Russian and the Romanian governments, signed on 16th of January 1945. By this, the reparation to be paid by this former enemy became a purely Russo-Romanian matter and was, therefore, withdrawn from the inter-allied commitments toward the "sattelites".

This Convention foresaw the delivery of the following quantities of oil as reparations:

1945	1,715,800 tons
1946	1,722,000 tons
1947	1,703,000 tons
1948	1,649,000 tons
1949	1,703,000 tons
1950	1,703,000 tons

It amounts to 100 (figurative movement upwards) e.g.a. quantity of 10.2 tons oil products, which represents roughly more than forty percent of the entire Romanian production for the same period of time. This had to be delivered at the Soviet border and for the purpose of the reparation settlement credited at 1938 world prices plus an increase of ten percent.

For the first two years, this obligation has been fulfilled in the following way:

Delivered in 1944:	418,000	
Delivered in 1945:	2,542,000	
Delivered in 1946:	<u>1,780,000</u>	4,740,000

For 1947 and 1948, the total deliveries

amounted approximately to:

3,500,000

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8,240,000

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In June 1948, Moscow agreed to reduce by one-half the oil deliveries still due from Romania as reparation for the last two years (August 1948 - August 1950). According to the announcement made on that occasion, there will be delivered not 3,406,000 tons, but only half this quantity:

1,703,000

Consequently, the total oil deliveries under Article 11 of the Armistice will amount to:

9,943,000

If to this are added also the oil delivered to the Soviet troops and authorities in Romania, under Article 10, as well as an approximate amount taken as war booty or "without forms" (as the ordinary looting used to be called), the total and actual oil deliveries to Russian will be not less than:

11,000,000 to

Granting that the planned oil production for 1949 and 1950 will be an average of four million to/year (which is very doubtful indeed), this quantity represents nearly half of the Romanian oil production from September 1944 to September 1950, which is taken by the Russians without any kind of compensation.

However, besides the quantitative aspects, the oil deliveries present another aspect which is more striking: that of the prices.

The Armistice Agreement fixed the oil prices at the 1938 level plus ten percent. According to this provision, Romania had to deliver oil products to the value of

\$150,000,000.00

in installments of \$21,000,000.00 to \$26,000,000.00 yearly. This clause was inserted with the obvious intention of extorting greater amount of reparation. For, at the time of the signing of the Convention, world prices for some oil-products were already 150 percent

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above the 1938 level. The index of oil prices on Gulf Coast Bulk Market evaluated for fuel oil from 100 in 1938 to 172.5 in June 1946, 246.4 in June 1947, and 372.1 in June 1948.

Taking for basis these indexes and calculating the real value of the oil products delivered to Russia, we arrive at the following results:

1944-45	Delivered for approximately	\$40,600,000.00	
1946	Delivered for approximately	41,300,000.00	
1947-48	Delivered for approximately	<u>117,900,000.00</u>	
			\$199,800,000.00

As for the last delivery of 1,700,000.00 tons, let us consider hypothetically that the prices in 1949-50 will be not higher than those of end of 1948, which, of course, is not true at all. In such a case, their value will be

The value of the oil quantities delivered under Article 10, calculated pro rata temporis and according to the same indexes is nearly

70,100,000.00
<u>\$269,900,000.00</u>

Total	<u>20,600,000.00</u>
	\$290,500,000.00

In other words, Russian received oil products to the value of two hundred percent more than was due to her. Yet, this figure has no pretention of being anything but a suggestion, as the exact quantities of each oil product delivered to Russian is not known. Nonetheless, it is a known fact that far greater quantities of more expensive products have been delivered and, thus, the delivery schedule agreed upon in January 1945 has not been respected. Consequently, an increase of ten to fifteen percent in the above indicated figure would bring it nearer to the actual value of the oil deliveries.

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But, besides this, mention must also be made of the collection of alleged war booty and trophies, which give an example of the Russian policy of stripping not only Romania, but all the countries under Russian occupation. Through the Armistice Agreement, Romania has been obliged to hand over to the Allied (Soviet) High Command at trophies all war material belonging to Germany and her satellites located on Romanian territory. Besides this, the Russians seized in the fall of 1944 various valuable materials and installations as war booty, although a great part of them were anything but war materials. However, the definition of war material has been a matter for Soviet concern alone and no inter-allied control was allowed. For these appropriations, the definition given to it in practice since the Hague Convention has been very much extended by the Russians. During later inter-allied debates on this subject in view of peace settlements for Austria and Germany, the Russians declared that everything which helped the Nazis to wage war against Russia is to be treated as war booty. This is indeed a very broad definition and the policy practiced in the Russian area showed that war booty and war trophies were actually everything that was of any value.

One of the best examples of this principle is undoubtedly the Romanian oil industry which was considered by the Russians as one of the foremost sources of energy that helped in waging the anti-Russian war.

For the huge drilling programme started during the war, for the period 1942-44, around 185,000 tons of oil materials, installations, and machinery were necessary. Germany actually delivered at least sixty-five percent of this amount, so that the oil industry was able

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to work, from this point of view, under good conditions. At the conclusion of the Armistice, the oil companies disposed together of almost 80,000 tons of such materials. The Russians took over, as war trophies or reparations, exactly sixty percent of this quantity, including all the then available pipes and tubes. Their exact value cannot be estimated. However, to replace them by imports from foreign countries, some 125,000,000 tons of oil products to the value of roughly seventeen to nineteen million dollars at 1945 world prices were necessary. It happened that not less than half of those materials and machines belonged to oil concerns owned by Russia's war allies: Great Britain and U. S. A. Thus, for instance, the biggest American concern in Romania, "Romano-Americana", which is the property of Standard Oil, was stripped of at least 7,000 tons of materials. By far, greater quantity was looted from the companies belonging to the Anglo-Saxon Company. During the Yalta Conference, the British Delegation filed a protest against the Russian interpretation and way of action, but did nothing further in the matter. Both U. S. A. and United Kingdom delegations protested again during the Potsdam Conference and, finally, it was agreed that two Inter-Allied expert commissions be established in Romania for the purpose of discussing the restitution or compensation of this allied ownership. They met several times in 1945 and 1946 and were disbanded later on, in 1947, on U. S. A. initiative, since they were not able to bring about any kind of understanding.

Moreover, by the Convention of January 1945, which implemented the Armistice Agreement, the Russians obtained that yet another great quantity of oil materials be delivered by Romania as reparation. In this way, almost the entire production by the steel industry has also

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been practically monopolized by the Russians. Late in 1948 some arrangements were made and a somewhat reduced proportion of the steel industry capacity was freed to produce tubes and other kinds of materials for inland necessities.

This looting as well as the blocking of the production capacity of the Romanian (later on, also, of that of all the Czechoslovakian and Polish) industries of oil materials show clearly how great was and still is the Russian need for such materials for the reconstruction of their war-damaged oil industry as well as the incapacity of their own industry to produce such materials in sufficient quantities.

The Romanian oil companies felt the complete lack of such materials most sharply, as it hampered all kinds of drilling activity and the replacement of old installations. Thus, it rendered them entirely dependent on the Russians for their exploration and exploitation activities. For the reconstruction of her likewise war-damaged oil industry, Romania needed yearly some 50,000 tons of such materials over a period of several years. If it was confined to the normal exploitation necessities, at least 15,000 to 17,000 tons of materials were needed yearly, e.g., the equivalent of nearly 420,000 to 450,000 tons of oil products, to be exported. However, no quantity has been made available for such purposes. Up to the beginning of 1947, only some 7,000 tons materials have been imported, mainly from Czechoslovakia, and covered partly by deliveries of gold. By the new Economic Agreement of February 1947, Russian promised to supply Romania with 20,000 tons of steel which had to be used mainly for manufacturing oil pipes in Romania. But this promise did not take concrete shape until the end of 1947. What was obtained

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later on was used mainly for the needs of the State owned joint oil corporation, which will be discussed later on.

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SOVROMPETROL

Before any negotiations for peace settlement with Southeastern Europe were initiated, which would have given to those countries the primarily necessary freedom of economic orientation, Russian bound their export capacity (or what remained after deduction of the reparation payment) by all kinds of economic agreements. By this method, the economy of these countries has been incorporated in the post-war "Stalin Five-Years Plan" and thus helped towards the success of the Russian Planning and, implicitly, substantially towards her reconstruction. It was already obvious at that time that, owing to the grave scarcity of goods and tremendous needs of Russia in both consumption and capital goods, she would never lessen her grip on those economies. The network of such economic agreements had been perfected throughout that area before the end of 1945.

The first in the row was Romania: a far reaching commercial agreement had been signed as early as May 8, 1945. The contingents of merchandise provided to be exported to Russian were equivalent to a monopoly over the Romanian economy. After this agreement, the oil surpluses were completely in Russian hands and, therefore, this item which previously constituted half of the Romanian export and enabled this country to get, in exchange, hard currency, capital goods and materials for the oil industry, disappeared completely.

However, more important than this agreement was the Protocol signed in Moscow on the same day and establishing the conditions of a long

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economic collaboration between the two countries. It has been concluded for a period of five years with successive prolongation after. Among other things, it was agreed to establish joint Soviet-Romanian Corporations for the exploitation of various branches of the Romanian economy. Both States committed themselves to contribute equally to their establishment and endowment.

As for the oil, the establishment of such a joint corporation under the name of SOVROMPETROL was likewise provided for the exploration, exploitation, treatment and marketing of oil and oil products, with an open door for private individuals, companies or associations, to participate in or join this corporation. The Romanian State contributed to its endowment with concessions on new oil lands, preference in prospecting lands not hitherto worked and also with at least fifty percent of the crude oil reverting on due to the State by the private companies under the title of royalties and mining taxes. The Russian government promised to contribute the necessary equipment "as and when required for the development of the company, in accordance with the specified programme". Both governments had an equal number of votes in its management, with the stipulation that the Managing Director should be nominated by the Soviet Government. In other words, this joint corporation had to be kept going with the Romanian oil lands and oil, the Russians promising to bring in their contribution "as and when required" but, nonetheless, they took over the management. It is, of course, no longer necessary to underline or demonstrate the real Russian intention behind this joint corporation: to acquire freely the Romanian oil also after 1950, when the reparation

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payments will cease. For no one would believe that the Romanian oil industry so badly needed Russian management and advice. From the very beginning of this industry, the exploitation, treatment and marketing of oil have been done solely by private companies and they have done a good job.

The Protocol of May 8, 1945, provided that, within a month, the two governments will conclude a separate agreement for setting out the legal, financial and technical conditions regarding the organization and working of the joint corporation. Hence, on July 17, 1945, a "Convention for the foundation of the Sovrompetrol Company for exploitation, exploitation, refining and marketing of crude oil and oil products" was signed in Bucharest. The initial idea agreed upon on May 8th has in many respects suffered fundamental changes:

(a) Sovrompetrol has to function as a Romanian private juridical entity of the type of a limited company and shall be treated by the Romanian laws as a Romanian corporation. Its main office shall be in Bucharest and its duration unlimited.

(b) The two governments charged separate State or private organizations to carry out the establishing and financing of the joint corporation. The Soviet government gave this in charge of the two main oil organizations of the Soviet Republic: The Unions "Ucrneft" "Sojusnefexport" and the Romanian government in that of the two biggest purely Romanian oil companies in which the State held, through intermission of some other State companies and entities, the majority of the shares: Creditul Minier and Redeventa. Whereas the Soviet organizations had to fulfill simply an administrative mandate, the

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Romanian government, from a legal point of view, expropriated the two companies and then charged them to act as State proxies, as the private share holders have never been asked to agree to such a mandate.

(c) The company's capital is of five billion lei, paid or covered by the contracting parties in equal shares:

The Soviet Party through:

Installations, casing and material for exploration and exploitation of oil in value of 740 Mil. lei, estimated at average prices in Romania during the first half of 1939;

Shares of eleven Romanian oil companies, evaluated at 1,760 Mil. lei.

The Romanian Party through:

Shares or assets of twenty-five Romanian oil companies;

Fifty percent of the new prospected areas and all thoses ceded or which will be ceded to any of the twenty-five Romanian companies forming the Romanian group, evaluated at 1939 prices by a joint commission of experts, arbitrated, in case of necessity, by the two governments;

Fifty percent of the yearly royalties due to the Romanian State until the contributions of the two parties shall become equal. The crude oil shall be estimated also at 1939 prices. Each founder shall receive an equal number of shares, that are nominal and transferable only by authorization of the respective government.

The founders were obliged to cover entirely their subscriptions by August 1948 and, within a further two years, e.g. by August 1950, to transform into assets (installations, oil lands, etc.) the contri-

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butions represented by the shares of the eleven respective twenty-five oil companies. Both these dates were, for later developments, of a significant importance, as the Romanian State was forced to proceed between December 1947 and June 1948, with a view to complying with this obligation, to the socialization of all the oil companies still working as free private enterprises. This, as well as some other transformations, operated during this period in the Romanian oil industry, legislation, etc, are, there is no doubt, the consequences of the obligations assumed by the Romanian State through the Sovrompetrol Charter.

Furthermore, this is one of the most striking, and for the Romanian industry, most onerous, provisions of this Convention; whereas the Russian group was granted a delay of five years to pay off its subscription, the Romanian State was committed to put freely at the disposal of the Sovrompetrol its royalties and the specified oil lands for immediate exploitation for an unspecified period. Hence, its endowment during the time when it was still in the process of being constituted was solely a Romanian charge.

(d) Further rights vested in this joint corporation were very great indeed and aimed visibly from that time on at the creation of a monopoly in the entire Romanian oil industry in Russia's favor. Thus, for instance, the right to prospect, explore and exploit liquid bitumen has been extended to all concessions of oil lands in the future, for the Sovrompetrol has the preference or the option on equal terms at such auctions.

In spite of the fact that since 1940 all pipe-lines have become monopoly, this joint corporation was granted the right to own and build

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her own pipe-line network.

(e) Last but far from least, there was bestowed on her the right to use exclusively and unquestionably all the foreign currency which will result from her exports for purchasing oil materials, equipment, etc. Therefore, whereas the production of all the other oil companies was disposed of at fixed and uneconomic prices (as will be shown later), either to be exported to Russia or used within the country, this provision amounted to the practical creation of a monopoly on oil export and import machines and drilling materials in favor of the Sovrompetrol.

(f) Finally, it has been agreed that its management will be carried out by a Board of Directors, composed of an equal number of Soviet and Romanian members; the Chairman and the Deputy Manager will be Romanians, the Vice Chairman and the General Manager, Russians. The Sovrompetrol's Charter, which developed further the principles written in the Convention, specified that, whereas the Chairman has but nominal and presiding attributions, all the executive functions and ultimate decisions are entrusted to the General Manager, who has "unlimited rights as to administration and direction of all interests, goods and operations of the corporation, other than those to alienate her assets". For these purposes, he needs no special mandate from the General Assembly.

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THE APPROPRIATION OF GERMAN INTERESTS

In comparison with the provisions of the Protocol of May 8, 1945, the Convention of July 17, 1945 brings a novation also in that both parties contribute to the Sovrompetrol with shares and/or assets of Romanian oil companies. But Russian never previously held any kind of interest or participation in the Romanian oil industry. Where then do these oil shares come from?

Article 8 of the Armistice Agreement obliged the Romanian government not to permit the export or expropriation of any form of property belonging to Germany, Hungary or their nations, or to persons residing in their territories or in territories occupied by them, without the permission of the Allied (Soviet) High Command and, also, to maintain this property according to conditions prescribed by the Allied (Soviet) High Command.

With a view to fulfilling these obligations, the Romanian government established, by Law Number 91 of February 10, 1945, an institution to supervise enemy assets, known commonly since as CASBI. All holders, administrators of such, but especially of German, goods, rights, and interests were obligated to declare and register them with CASBI. Yet, before CASBI was established, the Soviet government sent to Romania sundry commissions of experts to inquire into and search the archives of the State Administration and the oil companies, in order to identify the German assets. This investigation lasted until sometime in 1948. However, the result of their first searches was known to the Soviet

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government by June 1945. They indicated important German interests in the Romanian oil industry and this influenced the Russians to change their initial plans of two months earlier and determined them also to include the German assets in the joint corporation as a Soviet contribution. By letters addressed to the Romanian government before the signing of the Sovrompetrol Convention, the Soviet High Command communicated to the former that "the Soviet Government has transferred the German assets in the specified Romanian oil corporations to cover the losses and damages of war inflicted on Russia by Germany". The Romanian Government was ordered to act accordingly, e.g. to operate, by law, the transfer of this kind of interest into Soviet patrimony, represented by the State Union "Ucrneft". The order was carried out by law Number 573 of July 18, 1945, in which there was included the list of the oil shares considered henceforth as Soviet property.

They are:

Oil Comp.	Total Capital in Mill. of lei	Soviet Share
Concordia	1,470	755.8
Colombia	380	325
Petrol Bloc	470	285.5
I.R.D.P.	600	115.5
Continental Oel	100	100
Further Six smaller comp.	<u>339</u>	<u>170</u>
	3,359	1,759.8

By means of this initial appropriation of German assets, as some others followed later on, the Russians covered exactly their due contribution in oil shares. The remaining thirty percent of their con-

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tribution had to be covered by installations, equipment, etc., but not before August 1948 or even 1950. And yet, the Russians needed to bring back to Romania only a small part of the looted oil materials to cover this obligation, too.

Consequently, the Russian participation in the Sovrompetrol consists of lootings and expropriated German assets which amounted to nothing else than purely Romanian or, what is worse, allied property. But, this assertion needs a little further explanation.

The first point refers to the legal status of the Romanian oil shares during the war. In spite of the wish to avoid discussing too many details or particular technicalities, this subject must, however, be gone into, to reveal another important aspect of the Russian oil dealings in Romania.

As has been mentioned at the beginning, the Germans tried before and all during the war to acquire as many as possible of the Romanian governments tried, by legal and administrative measures, to call a halt to this penetration. Thus, for instance, as early as July 11, 1940, it was decreed that all oil shares had changed to be from bearer to nominal shares and that, in the future, the capital of any and all oil companies had to be represented by nominal shares. By this means, the State tried to control the transfer of shares and to thwart the "too zealous German collaboration" in the oil industry, inasmuch as each transfer had to be approved by a Special State Commission. Despite its war alliance with Germany, the nationalistic regime which followed after January 1941 has followed up the previously established principle in this respect, improved and imple-

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mented its application and, furthermore, on March 25, 1941, decreed the obligation to nominalize all the shares of the Romanian commercial and industrial companies. Failure to comply with this obligation within a limited term was penalized with the expropriation of the shares in the favour of the State. However, the State rarely made use of this provision. The foreign holders were granted several terms to comply with this obligation. But, for various reasons, not all the Romanian economic representations in European capitals have been in the position to proceed with or finish the formalities for nominalization of the Romanian shares abroad.

On December 17, 1940, the German government concluded with the French government then in power an agreement according to which the former was enabled to acquire, on the French market, oil and other kinds of shares belonging to foreign corporations and to credit these acquisitions to the reparation settlements. By February 1941, the Germans acquired on the French and Belgian markets over two million of Romanian shares, especially those of Concordia and Colombia, both purely French and Belgian companies.

In order to facilitate the administration of its by now so extended oil interests in Europe, the German government established early in 1941 a sort of joint stock holding, under the name of "Continentrale Oel G.M. B.H." and soon afterwards founded a branch in Romania. In May, the same year, the German government started to put pressure on the Romanian government to authorize the nominalization of the so acquired oil shares in the name of this State corporation. However, the latter, startled by the already too advanced German penetration, took a different view of

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this economic collaboration and stubbornly opposed the alienation of the national wealth. Moreover, it refused not only the nominalization of the acquired shares, but actually forbade the payment of dividends to all bearer shares. Furthermore, the State subrogated many rights of the General Assemblies of important corporations for the duration of the war.

To these measures, the Germans reacted with political pressure. The effect was, in this respect, null. Therefore, they deposited the material titles, stripped of any juridicial rights, with the Deutsche Bank, Berlin and waited so that, after their military victory in Europe, they could also settle this problem. The more than two million shares were found, in 1945, by the U. S. A. Military Government in South Germany and, later on, restituted to the French and Belgian governments. Thus, there are now two series of shares and holders for the same companies: the old ones and the duplicates issued in 1945 by the Romanian government and handed over to the Russians. It is certainly very difficult to predict how (if ever) this conflict will be settled.

For the time being, it is worthwhile to stress again here that actually the bulk of the shares with which the Russians contributed to the capital of the Sovronpetrol have been simply, and disregarding the Condon Declaration of January 6, 1943, re-expropriated from their Allies. The second explanation refers to the post-war inter-allied policy regarding the reparations. In this connection, it might be recollected that at the time the Russians decided to appropriate the German External Assets (or what they afterwards wanted to consider and interpret as such), no reparation policy was yet agreed upon. The provisions of the Yalta

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Conference stated, it is true, that Russian would be compensated out of appropriate German assets and current production, but this was a mere promise and it had to be worked out, later on, by an Inter-Allied Commission. This met in Moscow, in May 1945, and closed the discussions in mid-July of the same year, without agreeing on any of the items of its agenda, as have most of the allied meetings since. The delegations decided to report the failure to their governments. This took place before the opening of the Potsdam Conference, and a decision on this matter was taken during its last day, August 1st. Therefore, the Russians took the German assets in Romania as an advance payment and faced their allies again with a fait accompli.

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THE RUSSIAN MONOPOLISTIC POLICY

The Convention for the establishment of the Sovrompetrol as well as its Charter and Statutes have been subject to repeated modifications. The latter were agreed upon on August 10, 1945, and ratified by the Romanian government five days later. A first modification was brought about on October 24th of the same year, when exemptions for taxes and fees owed by this corporation for her activities were granted.

On January 28, 1946, the Charter and Statutes were republished in the Official Gazette, because when they were first published, some errors and omissions passed undetected. However, it is obvious that three months were not necessary for checking some printing errors. Actually, this opportunity had been taken to make some new modifications within the Statutes and, undoubtedly, to the benefit of the Sovrompetrol.

By a new law of March 30, 1946, new advantages of fiscal and of other orders were granted to this corporation.

On July 30th, the same year, the constituting Soviet and Romanian groups agreed upon some new modifications and agreed on a new partition of the shares among the companies forming the Romanian group.

Another point is that the object of this corporation has been broadened by including in it also the right to exploit and market not only petroleum, but in addition any kind of solid bitumens and gases, under the same conditions and with the same privileges granted for the

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initial object.

Yet, the most important decision was taken with regard to the status of this joint corporation. It will be recollected that, a year earlier, it was agreed that Savronpetrol shall be treated, by the Romanian laws, as a Romanian corporation. Also, that all her decisions had to be ratified by the Romanian government by a law or decree to confer on them the necessary power for application within the Romanian territory. On this occasion, the General Assembly decided that, inasmuch as Savronpetrol has been established by an international agreement, which it considers binding in every respect, the General Assemblies can take any kind of decisions regarding its administration, etc., without it being necessary that they shall be ratified by decree by the Romanian government. Henceforth, the Savronpetrol enjoyed fully the status of an extra-territorial corporation. This decision has been agreed to and complied with by the Romanian government which has exempted it since from any authority and, especially, from that of the Mining Department.

Therefore, the following privileges, etc., must be understood as mere results of direct negotiations between this international corporation and the Romanian State.

After the economic negotiations held in Moscow, in February 1947, a Protocol was signed between the two governments providing new advantages and privileges bestowed on Sovrompetrol, which enjoyed by them a complete extra-territorial status.

Finally, an additional Protocol to the initial Convention was signed in Moscow, on February 18, 1948, imposing new charges upon the Romanian

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State and modifying the contributions initially agreed upon. Needless to say, they were solely to the Russian benefit.

These modifications as well as those brought about indirectly, e.g., by ways of laws, decrees, decisions or simply factual maneuverings, which bear some influence on the status of this joint corporation, will be shortly discussed or simply mentioned in the following pages.

In this place the fiscal privileges granted to the Sovrompetrol will be mentioned.

As is shown by the context of the initial Charter, attached at the end of this paper, no exoneration of taxes, fees, etc. were, initially, granted to it. On the contrary, it was provided that Sovrompetrol shall be treated as a Romanian juridical entity, according to the Romanian laws.

By a decree in Ministers Council, of October 24, 1945, it was exempted from any kind of taxes and fees due at her establishment and registration as a corporation, for the shares which will be issued, for the contributions in money and in kind received, as well as for all those due at the fusion, absorption or liquidation of any of the oil corporations which were mentioned in the lists of contributions of both sides.

By a law of March 30, 1946, new privileges have been granted to her; the shares attributed to the founder members and the goods imported until August 1948, as a contribution to Sovrompetrol, were completely exempted. This provision was inserted for the benefit of Russia alone, inasmuch as she was obliged to contribute with materials, etc. Moreover, in cases when the imported materials will not be used to cover the Russian contribution but for drilling or exploitation works done by the Sovrompetrol with or on account of any of the companies within the Soviet or Romanian

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group, they, too, will be exempted from taxation. This provision enabled Russian to bring in freely some material that was used to improve and strengthen solely the two big Soviet companies: Concordia and Colombia, with a view to doing smaller drilling and exploitation work on their account and for Russian benefit.

The same exemptions have been granted for the royalties and oil land concessions contributed by the Romanian group. Soon afterwards (April 1st, 1947) the Sovrompetrol was exempted of any taxation due for treatment and refining of crude oil, belonging to producers who do not have their own refineries. By this, the competition of the private companies has been excluded (as they are not in a position to refine at lower prices) and the basis for a gradual refining monopoly for the the Sovrompetrol has been thus set up.

All these exemptions made sensitive holes in the budget which, anyhow, after 1945, was nurtured mainly from expropriations and ruthless exploitation of the working class.

In addition to the preference, on equal terms, at any auction, granted to the Sovrompetrol by the Charter, a later legal provision of June 8, 1948, extended it in the sense that, at any other auctions, all Soviet-Romanian corporations were exonerated from the obligation to deposit the guarantee of ten percent of the value of the auctioned contracts and no one was obliged to guarantee the correct execution of the work done for the State administration or companies. Yet, at the same time, the most draconic measures were taken against private corporations which, on the contrary, were compelled to make and increase the deposits for the same guarantees. This measure caused the practical exclusion of the private enterprises from such contracts and so a

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monopoly for State orders has been created for the benefit of the Soviet-Romanian corporations.

Later on, by a law of August 14, 1948, the Soviet trade and industrial corporations in Romania were also extended the same exonerations.

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THE ROMANIAN CONTRIBUTION

1. Shares. Among the oil companies contributed by the Romanian group to the capital of the Sovrompetrol, only Creditul Minier and Redeventa, with a total capital of 1.100 Mil. had any great importance in the Romanian oil industry. As mentioned already, the State owned the majority of the shares and backed in many respects both of them, especially after the new Oil Law (1942) had been promulgated. The remaining twenty-three companies were all small undertakings. Their total capital was of 580 Mil.
1.680 Mil.

Together with the two others, they represented what can be called the purely Romanian oil companies. They too have been encouraged by the State. Nevertheless, their assets surpassed by far their capital.

None of these companies were asked, before the Romanian government committed them to the Sovrompetrol, to agree to this joining and, thus, they and their share holders have not given up, legally, either their independence or their ownership rights. Therefore, with a view to compelling them to join the Russo-Romanian holding, it was necessary for the State to use some extra-legal measures and ways. They were applied gradually.

By the decision of the extraordinary General Assembly of the Sevrompetrol of July 30, 1946, the Romanian group was broadened by including in it one of the companies which were on the Romanian list: Socop. It is necessary to indicate that this was a small company with a capital of only 20 million lei and owned entirely by Creditul Minier,

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e.g. by the State. Simultaneously with the raising in rank, Socop was empowered, exclusively, with the mandate of acquiring the shares of the other twenty-three companies, as well as with that of bringing into the Sovrompetrol the royalties and oil land concessions which formed the Romanian contribution. To help and speed up the fulfillment of the first mandate, it was decided that each of the twenty-three companies might bring their shares to the Sovrompetrol direct and receive, in exchange, shares of the latter.

But, at this opportunity, the General Assembly voted also for the modification of the voting procedure which is worthy of mention. Firstly, it was decided to redistribute the shares among the Romanian founder-members in this way:

Socop holds	1.4 million Sovrompetrol shares;
Creditul Minier	0.7 million Sovrompetrol shares and
Redeventa	0.4 million Sovrompetrol shares.

Then, it was stipulated that any of these three Romanian founders, as well as any of the other contributing companies has the right to participate and vote in each of the General Assemblies held at any time until August 1948, independently of the others. This modification had its reason in the fact that the majority of the Romanian companies were not willing to join the Sovrompetrol. To cut short long and troublesome struggles with them, the procedure has been simplified in this way.

Moreover, for holding a General Assembly, which by then had the right to take any kind of decision which was valid without its ratification through a law by the Romanian government, it was necessary that only seventy-five percent of the shares be represented and that two-thirds of them agree. The participation of Socop, therefore, ensured

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the gathering of the required seventy-five percent of the shares for holding valid General Assemblies. Afterwards, any kind of decisions could be taken with only fifty percent of the total number of the shares, which actually was nothing but the Russian participation itself.

The transfer of oil shares at, at that time, still regulated by the restricting legislation of 1940-42 and, consequently, subject to formalities and previous authorization. To simplify the way for the target of Socop and, at the same time, to avoid the granting of a new term to some foreign holders who had not as yet nominalized their shares, the government promulgated the law of 23 December 1946, by which the transfer of shares of any kind was exempted from previous authorization. But not the acquisitions by aliens, which had still to be authorized by the Economic Department.

By a new law of 29 December 1946, the transfer of oil shares to aliens was specifically restricted and the Mining Department was empowered to decide in each case. But, actually, this restriction did not apply, as will be seen later on, to the Russians who, with the complicity of the Mining Minister, have been able to acquire unrestrictedly further oil shares.

A new stock of legislative measures was taken with a view to facilitating the merging of the oil companies. This concentration was encouraged by the Oil Law of 1942. On 15 August 1945, it was forbidden and, by Law 937 of December 23, 1946, (the coincidence of dates clearly show the tactics), allowed anew with the goal of speeding up their adherence to absorption by Sovrompetrol.

With this help, Socop was able to acquire the desired oil shares. This happened especially between August and December 1947, e.g., during

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the period when most of the oil companies were badly hit by the monetary stabilization and the subsidiary financial measures. No wonder, then, that many were forced to liquidate or that their shares were sold at prices which, in some cases, were even below ten percent of their nominal value.

Pushed by the same peculiar need for legality, so common to the Soviet type of political regime, the Romanian government homologated, by a law of March 19, 1948, all the acquisitions of oil shares made legally by Socop up to December 1947.

Finally, by the Socialization law, the rest of the shares, as well as the assets of the oil companies, have been appropriated by the State. For only by help of this law, the Romanian government has been put in the position to fulfill both the obligations assumed through the Sovrompetrol Charter (the transformation of the shares into corresponding assets) and to comply with the Russian plans for complete domination of the Romanian oil industry.

2. Royalties. According to the Romanian Mining Law, the private oil corporations are obliged to pay a part of the rent for oil lands conceded to them by the State, in oil. This quantity of oil reverting to the State is called royalty. Besides this, they have to pay some of the mining taxes in oil, in proportion to their production. Therefore, their quantum varies according to the production within a year.

The share of oil belonging to the State was, during the last years, approximately, the following:

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<u>Year</u>	<u>Royalties</u> in to of crude oil	<u>Minining Taxes</u>	<u>Total</u>	<u>In percentage of</u> <u>the Production</u>
1941	201.952	157.034	558.986	10.02
1942	386.116	161.561	547.677	9.67
1943	341.751	149.727	491.478	9.33
1944	155.100	101.500	256.600	7.28
1945	264.480	134.560	399.040	8.60
1946	238.600	121.597	360.197	8.59
1947	167.900	110.490	278.390	7.31

(1) Figures for 1944-1947 are estimates calculated by inference.

The intial Charter of the joint corporation provided that fifty percent of the yearly royalties were due to Sovrompetrol by the Romanian government, until such time as the contributions of the contracting parties shall beccome equal. According to Soviet estimates, the Romanian contribution was considered inferior to theirs and they pressed the Romanian government to compensate the difference. This was done by Law 262 of Mary 30, 1946, when the Romanian State agreed to contribute to the Capital of Sovrompetrol with seventy-five percent of all royalties and mining taxes due to it and this again, for an unlimited period of time. Finally, through the Protocol signed in Moscow, the 18th of February 1948, the contribution in royalties (including mining taxes) was raised again from seventy-five to one hundred percent and was due from January 1, 1948 until August 1, 1949.

Consequently, the quantities of oil put at the disposal of the Russo-Romanian company by the Romanian government were the following:

For the period October 1944 - April 1, 1946, 50% was due	190,000 tons
For the period April 1946 - January 1, 1948, 75% was due	433,500 tons
For the Period January 1948 - August 1949 100% is due or approximately	<u>380,000 tons</u>

1,003,500 tons

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inland prices : without taxes,
with taxes and fees added ;
export prices : at the refinery,
f.o.b.Giurgiu harbour.

received an amount of some	La	<u>1,150</u>
a difference in Russian benefit of	"	450

for the first instalment of 190,000 tons	131.3	"
for the second " 433,500 "	417	"
for the last one 380,000 "	<u>492.7</u>	"
therefore, a difference of 441 millions	1,041	"

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According to a rough estimate, the quantity of oil reverting to the State as royalties and mining taxes for the period between August 1944 and August 1949 could be not higher than approximately 1,5 to 1,550,000 tons. Therefore, after deduction of the contribution paid in oil, a surplus of some 500,000 tons would remain for the State to dispose of as it saw fit.

In actual fact, however, long before the founding of the Sovrompetrol, this remaining quantity of oil had been allocated to Russia by a decree in the Ministers Council of January 25, 1945, as part of the reparations due under art. 11 of the Armistice Agreement. The decree approved that a quantity of 550,000 tons of crude oil be given to Russia, either directly or through a third party. This quantity had to be covered out of available royalties, mining taxes paid in oil, etc. still outstanding or which would be due to the State for the fiscal years 1944/5 and 1945/6.

Consequently, all the State receipts in oil for the period from 1944 until August 1949 have been put at Russian disposal, either as reparations or to endow the joint corporation.

It would, of course, be of great interest to know in what way they will be disposed of in the future. Judging by some facts and elements which enable us to make a reasonably fair estimate, the probable fate of these receipts is not a very bright one from the point of view of future State budgets.

After the monetary stabilisation a special law was passed permitting oil companies to pay in advance in cash for concessions of oil fields made to them in 1946 and 1947. Actually, this law was rather a homologation of some dealings with ~~xxxx~~ fields concessions, for which both the price and the value of due royalties and mining taxes were deposited before the stabilisation. After it, these amounts shrank to only insignificant percentages of their real value. Notwithstanding, only Sovrompetrol and the Russian corporations benefited from this, for since 1946 only these

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companies have been granted oil field concessions.

Certainly, such dealings -which are equivalent to the State's renunciation of its rights- lessened the quantity of oil reverting as royalties and, as a consequence, the quantity required to be contributed to Sovrompetrol became smaller. In view of counter-balancing this loss, the Romanian Government expropriated, without any compensation, all participation rights over oil production due to physical or juridical persons, as well as those rights granted by the mining and oil laws in favour of the surface owners of exploited oil fields.

Furthermore, according to the new Constitution of April 1948 and the following socialization law, all mining and oil resources belong to the State which alone has the right to exploit them through the intermission of State corporations. ~~Further~~ Other considerations put aside, this measure created since rather a confused situation. In the past, the amount of royalties was determined by the activities of the private companies and by their competition at auctions for oil field concessions. After the socialization of oil resources and introduction of a State economy of the Soviet type, such a competition could only take place between Sovrompetrol, the State owned companies and the Russian oil corporations run by them independently of Sovrompetrol. It does not require great wisdom to foresee that the Romanian Government will not be able, through its own companies, to compete with Sovrompetrol should the opportunity arise. Even less can it compete with any Russian owned corporation, since this would be tantamount to hostility to Soviet Union. Therefore, the State will establish by law what royalties and taxes must be paid by itself to itself. As for the Russian interests -within or outside Sovrompetrol- they will be satisfied according to purely political conveniences.

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3) Oil fields concessions.

According to the factual situation at the time of the Armistice conclusion, the total concessions of fields granted to oil companies on State and private lands was

132,400 hectares

Proportion of these fields brought into Sovrompetrol, as assets :

- By the Soviet group¹⁾ 21,854 "

or 16% of the total.

- By the Romanian group 7,622 "

or 6%. Remainder : 102,924 "

or 78% which comprise by far the richest fields and were in the hands of the other private companies. Their capital was controlled almost exclusively by British and American concerns.

Judging from drilling ~~xxxx~~ activities, their importance was as follows :

Of a total drilling, in 1944, of 147,000 meters the companies belonging to the Soviet group executed 29% or 48,776 " and the Romanian group 5% or 7,307 "

Of a production of crude oil, in 1944, of 3,525,000 tons the companies forming the Soviet group owned 29% or 1,041,557 " and those within the Romanian group 8% or 284,877 "

These figures show, approximately, the initial strength of both groups and, together, that of Sovrompetrol. In order to balance the two groups, the Charter stipulated that the Romanian group would ~~bring~~ contribute with the State royalties and mining taxes already discussed and, also, new oil

1) In the Soviet group are included also the former Italian oil companies which were given to Russia by the Peace Treaty with Italy, on account of the reparations, but are not as yet included in the Sovrompetrol.

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fields. The latter obligation was a twofold one : to bring in a number of fields as a dowry and, also, to grant in the future to this joint corporation preference at the concession of new oil fields.

Concerning the former obligation, the Romanian State brought into the Sovrompetrol fourteen oil fields of an unspecified ~~surface~~ area, located in four different districts. But their value seemed not to be a very important one. In fact, at that time, ~~however, of these there were not in exactly known number~~ ~~it was not known for certain whether seven of~~ it was not known for certain whether seven of them definitely contained oil deposits. Two more were assumed to have a certain value, since they were located near concessions on areas owned and already successfully prospected or even exploited by private companies. On two more, located in the district of Bacau, all activity ceased long years ago owing to the poverty of the soil.

Using the same tactics as they did with the royalties, the Russians asked -by degrees- that some of these lands be excluded, new ones included, other changed (which amounts to the same thing), until they estimated that the Romanian contribution balanced the Russian one. The first change happened in February 1947, when three new fields were included. The second was agreed to through the Protocol signed in Moscow, on February 18, 1948. It provided, inter alia, that eleven oil fields be excluded from the Romanian contribution and replaced by eight areas with a surface of 280 hectares, located within rich and prospected areas. Especially those located at Boldesti in the district of Prahova, have a considerable value, as this still has the richest wells in Prahova and, in fact, in almost the whole of Romania. After this last change, the Romanian contribution has the composition shown in the attached list.

In exchange for the excluded lands, the Romanian Government has been obliged to provide new oil shares and crude oil to the value of 140 millions lei. It was further agreed that, if even these shares and crude oil should be estimated

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by Russian experts as insufficient to replace the value of the excluded lands, this new difference will be covered later by a bi-partite understanding.

And yet, the excluded fields have to be kept at the disposal of Sovrompetrol which, at any time, can ask that these be contributed by the Romanian group. In other words, Sovrompetrol still holds some rights over them.

This last agreement illustrates, indubitably, the Russian tactics to extend its monopoly, step by step. The contributed oil fields have to be -according to the Charter- valued by Russian and Romanian experts in equal number. If they disagree, the two Governments will settle the matter. On such occasions, the Romanian Government must, of course, yield. By this method, the Russians might succeed in obtaining, as a further contribution in Sovrompetrol, an important share of the socialized oil fields and assets.

As for the concessions of new oil fields, a sort of monopoly was very soon created in favour of some State companies which none the less were working for Sovrompetrol. These are A.C.E.X. and Socop.

A.C.E.X. is a State owned Commercial Administration, established in January 1939, for the purpose of complimenting private initiative in prospecting work, namely in those areas of possible oil resources which would be considered by private companies as uneconomic. Nevertheless, this Administration was established out of the necessity to correct the progressive decline of the oil production, a source which was at that time of a great importance for the purpose of achieving the armament programme. Its importance increased after 1941 when a common prospecting programme was agreed upon by the German and Romanian Governments, whose fulfillment was given into the charge of A.C.E.X. and Continentale Oel A.G.

Until 1946 its activities were confined solely to prospecting and exploration of oil fields. These were, afterwards, conceded at auctions to private companies for

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valuation and exploitation.

By Law 771 of April 4, 1946, the powers of A.C.E.X. were increased, e.g. it had henceforth the right to exploit oil fields too. That meant that the State will no longer pass prospected areas over to private companies but will reserve them for exploitation or concede them directly to Sovrompetrol. From this time on, no new concessions have been granted to any private corporation.

By Law 309 of August 13, 1947, a new sort of monopoly was established over oil areas ; this time to the benefit of Socop, to whom the State has been bound to grant "until the Romanian contribution to the capital of Sovrompetrol is completely covered", all its exploitation rights on any kind of mining property which belong or will belong to the State, as well as all withdrawn, redeemed, lost, cancelled or abandoned concessions previously granted to private companies. These rights had to be the object of direct agreements between the State and Socop, with exclusion of any competition and without being obliged to fulfill the formalities provided by the Oil Law (such as public announcements, public auctions, etc.) At the same time, Sovrompetrol was empowered to choose from these areas and rights now belonging to Socop all those which it ~~will~~ estimated as the best. Furthermore, the price of the so-chosen fields or rights were, afterwards, regardless of that at which they had been conceded to Socop, estimated and fixed by the Soviet-Romanian Experts Commission.

By the same law, the Socop was granted 75% of all mining properties declared exploitable and belonging to the State, located in the new oil area in the district Arad (Western Transylvania). The price of these concessions was also arranged between the Mining Department and Socop.

Shortly before the promulgation of this law, new concessions on eight isolated fields which were granted some years ago, among others, to the British concern Astra Romana,

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were distributed among Sovrompetrol, A.C.E.X., Creditul Minier and Sonametan. The latter -a State corporation too, like the other three, having the monopoly on methane gas exploitation- had already been compelled a year earlier to hand over to Sovrompetrol some of its gas resources located in Transylvania.

At the end of 1947, the Sovrompetrol was, in addition, granted the exclusive right of exploitation of new areas situated in Banat, with a surface of 25,000 hectares.

In March and June 1948, some other concessions were given to Sovrompetrol and the two Russian companies, Concordia and Colombia, on three fields of 64 hectares, located in the district of Buzau, for oil and gas exploitation.

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To sum up, the Romanian contribution to the capital and endowment of Sovrompetrol has approximately the following picture (figures in millions of lei) :

- the shares of Creditul Minier and Redeventza	1,100
- the shares of the other 23 companies	580
- new shares and oil to be contributed, according to Protocol of February 18, 1948	<u>140</u>
	1,820
- royalties and mining taxes contributed	<u>600</u>
	2,420
- the remainder required to complete the total of 2,500 millions lei which is the Romanian contribution, that is	<u>80</u>
is considered to be the value of all the oil fields contributed already (and meanwhile exploited by Sovrompetrol) by the Romanian State !	2,500

Yet, this estimate is too optimistic, for its real value is far greater. In 1945 Creditul Minier increased its capital, by re-evaluation, from 700 to 1,565 millions lei. Therefore, the contributed oil shares are worth

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exactly
plus those agreed upon in 1948

2,545

140

2,685

As indicated above, the royalties are worth
To this must also be added the payment of
approximately 4 millions \$, paid by the Ro-
manian State to Sovrompetrol as "compen-
sation" for loss of past profits due to in-
adequate oil prices and for replacement of
depreciated equipment, etc. At present of-
ficial rate, this amount represents a fur-
ther

1,041

3,726

600

4,326

Hence, the Romanian contribution amounts
at, at least, 4,326 millions lei, besides the
oil fields which are, alone, worth a great
number of additional millions of lei.

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VII.

THE RUSSIAN CONTRIBUTION.

We saw earlier the way in which the Russians appropriated -before the Sovrompetrol Charter had been drafted- the German assets that, afterwards, constituted 70% of the Soviet contribution to the capital of this joint corporation. Yet the amount and distribution of these assets has substantially changed since. Conceding to a Russian request, made because it was suspected that there were German assets and interests still hidden in the oil industry, the Mining Minister ordered, in September 1945, that all the oil companies once more declare the initial distribution of their shares according to nationality of shareholders, at the date of the Armistice Agreement, and ~~any~~ also any changes that had meanwhile occurred. Actually, new German interests have been uncovered. The German title of ownership on some of them was, from the point of view of Romanian law, very controversial indeed. However, since the Russian criteria had to be obeyed, all of these new assets were handed over to the Union "Ucrneft" at different times, in 1946 and 1947.

The first transfer was undertaken on February 22, 1946 when, under law 85, the list of the German interests in the eleven oil companies initially appropriated by Russia on July 1945, was amended and enlarged as follows :

<u>Company</u>	Appropriated on July 11, 1945	Changes on February 22, 1946
	in million lei	
Concordia	755.8	804.7
Colombia	325	975
Petrol Bloc	285.5	285.6
I.R.D.P.	115.5	100.7
Continentale Oel	100	--
Explora	59	59.1
The remaining five companies, unchanged	<u>119</u>	<u>119</u>
	1,759.8	2,344

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The capital of Colombia was increased, in May 1945, from 380 to 1,140 million lei, by re-evaluation of the company's assets and, in this way, the Russian share was increased by 650 million lei without their being obliged to pay anything for the increase in value of their participation.

Continental Oel was a "Gesellschaft mit beschränkter Haftung", e.g. with limited responsibility and, therefore, had no shares. For that reason it was excluded from the Russian contribution in the Sovrompetrol. Nevertheless, this company disposed of very important assets. Thus, the total of its investments, merchandise, materials and paper assets, in September 1944, amounted to not less ~~xxx~~ than 1,560 million lei which means over fifteen times its capital. True, these assets were counter-balanced by creditor liabilities of 1,470 million lei but -according to the Russian definition of "asset"- they were simply cancelled. Also, Continental Oel was connected with the German Office for Petroleum Studies "Vifo" which had a certain technical importance in the Romanian oil industry. Both these companies have been merged in the "Administration of Russian Goods and Interests in Romania", a huge holding trust of the Soviet Union, in addition to the various joint corporations, and is run by the Russian Commercial Representation in Romania -according to orders from Moscow- on a complete extraterritorial basis.

As for the other companies, the amount of German interests has been revised, according to results of later inquiries into the nationality of their shareholders. However, not all of these new appropriations belonged legally to Germans.

After this last modification, Russia held nearly 25% of the whole share capital of the Romanian oil industry and took third place- after the British and Romanian interests- in the list of shareholders. That represented almost 10% more than the Germans legally owned or controlled.

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Until end of 1947, the Russian interests have been extended by acquisition of new participations in other companies. After the peace treaty went into effect, the Russians also took over the Italian interests and investments in the Romanian economy. In the oil industry, these were represented by the companies Prahova, Petrolina and Xenia. If all these new acquisitions are added to the former, it necessarily results that the Russians owned, in 1948, approximately 30% of the then share capital of the Romanian oil industry. A detailed situation of these interests is given in the attached list.

Before going into other details, it is necessary to stress that the monetary stabilisation and the following legislation ordering the computation of private capital hadn't touched the Russian interests. Whereas many companies lowered their share capital or, even, were forced to liquidate, the Russian holdings kept their pre-war nominal value, and, of course, the capital of Sovrompetrol remained the same, e.g. 5,000 millions lei.

After 1945, part of the Russian participations were brought into Sovrompetrol to cover the Russian contribution. That occurred on different occasions. In March 1947 (after the same famous Moscow agreement of February the same year) five Soviet-controlled companies - Explora, Meotica, Buna Sperantza, Transpetrol and Internova - were merged into Sovrompetrol. The last-named was an oil marketing company, established in 1940 with German participation, and has done very successful business since, as its profit of 420% in 1941 demonstrates. Not all the capital of these companies belonged to the Germans and therefore has been initially transferred to Russia; the rest of it has in the meantime been acquired by the latter, according to a policy of separation of the interests by whole companies.

Under the Protocol of February 18, 1948 signed in Moscow it was agreed to further include in the Russian contribution part of the shares of Naphta Romana and also the

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pipe line Copaceni-Ploesti, both acquired subsequently. Until 1947, 40% of the capital of the latter was owned by Rede-ventza which is since 1945 a State company.

Therefore, the Russian contribution thus far gives the following picture (figures in million lei) :

- list of the shares as of February 22, 1946	2,344
- additional shares acquired in the four companies merged in March 1947 plus the company Internova	14,4
- additional shares acquired in the capital of Sardep	6.66
- Naphta Romana and pipe line Copaceni-Ploesti	<u>39.6</u>
	2,404.7
still to be covered	<u>95.3</u>
	2,500

Let us remember that, according to the original Charter of Sovrompetrol, the Russian group was obligated to contribute to the capital of this joint corporation with 70% oil shares and 30% (740 million pre-war lei) in equipment and installations. After subsequent modifications, the Russians ~~thas~~ succeeded in covering actually 96% of their obligations with Romanian oil shares e.g. with Romanian assets appropriated, acquired or transferred to them mostly as a result of or by misinterpreting inter-allied agreements, such as the Potsdam Agreement and the Peace Treaty.

As for the remaining 4%, it is very probable that it has been meanwhile covered also with oil shares, as the Russians own -besides their contribution to Sovrompetrol- some additional 841 million lei participations in Romanian oil firms.

In this way, they succeed in escaping fulfillment of their obligation to contribute the material and machinery. Actually, these tactics are the consequence alone of the tremendous difficulties encountered by the Russian oil industry itself and of the shortcomings of the Russian oil

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equipment industry which is not able to keep in step with the requirements of the ambitious plans for reconstruction of the oil industry in the Caucasus. This has recently been proved again by the open criticism begun in the Soviet press against these shortcomings -which is used to serve purposes other than a mere self-flagelation- and, earlier, by monopolizing both Romanian and Czechoslovakian capacities of production of pipes and oil equipment for Russian needs.

The Sovrompetrol Charter provided that the two groups were obliged to transform **the** oil shares, no later than August 1950, into installations, oil fields, machinery, equipment, etc. e.g. assets of a corresponding value. What are the prospects of Russian contribution from this viewpoint ?

The balance sheets of the Russian owned companies closed in December 1944 showed as assets, the following :

Investments	24 billion lei,
Merchandise and materials	8 "
Paper assets	<u>2</u> "
	34 "

or some 3.5 billions of pre-war lei. Consequently, they will be able to transform the contributed shares into assets and still remain with a substantial amount of investments and materials as assets for the rest of the oil companies which are managed separately by their Commercial Representation in Romania.

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In summarizing up the Soviet contribution, it is evident that Sovrompetrol is nothing less a disguised Russian penetration. This corporation was formed solely with Romanian assets and is working only with Romanian means. The Russians contributed to it actually their "capital of experience" which is the "know-how" in exploiting and marketing - and the method for constructing "progressive socialism". With the exception of the latter, the Germans promised the same.

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VIII. CONFIDENTIALTHE POLICY TOWARDS PRIVATE CAPITAL.1) During the war.

The policy of encouraging foreign capital to invest in the Romanian economy, practised until late in 1930, was coupled with the freedom of transferring the profits into foreign countries. During the Depression, and until 1935, the profits of foreign investments were frozen. When later they were freed for use within Romania, the majority of these accumulated profits preferred surer investments in real property to that of industry. This vacuum -enlarged by the steadily increasing industrialization, caused also by the urgent need to arm- was to a great extent covered by State capital, accumulated through means of increased taxation.

During the period 1936 to 1940, special attention was given to a policy aiming at both increasing the production and directing oil exports towards markets which could pay either in hard currency or in capital goods and the raw materials necessary for their production.

The private companies were not only associated in this policy but, actually, their initiative towards this goal was encouraged, by leaving to their free disposition a fair share of the so-earned hard currency. In the administration of capital, managing of investments, etc., they were not restricted. No profit control was practised during this period of time. That helped the oil companies to increase their sinking-funds and accordingly amortize their investments (which, in 1935, were already amortized for 61% of their value). ~~and~~

After September 1940, there was introduced a nationalistic policy aiming, inter alia, at expropriating Jewish assets and recuperation of foreign investments. Yet this po-

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policy started simultaneously with the German penetration. The latter tried not only to monopolize the production (which actually occurred, as far as oil was concerned, through the conclusion of the Oel Pakt) but, equally, to get a strong foothold in the capital of the oil companies through acquisition of oil shares. In spite of the fact that they approved, and even promised - according to records of secret conversation held in the summer of 1940, between them and Antonescu, through the medium of the German Legation in Bucharest, and afterwards, between the latter and Hitler and Göring in Vienna - to help by keeping aloof from the process of expropriation of Jewish assets and recuperation from foreign investments, the Germans steadily followed this policy of penetration. For this reason, it is still difficult to differentiate and say to what extent the measures taken in controlling foreign interests during the war were due to the nationalistic policy itself and how far they were aimed at protecting them against German penetration.

Among these measures were : the appointment of administrators of control and supervision, the nominalization of all oil shares in the name of their holders as of August 8, 1940 (the beginning of the racial policy initiated by ex-King Carol II) and, last but not least, the modification of the Petroleum Law in July 1942. Under the latter, the State openly tried to protect native oil companies, and to encourage, facilitate and speed up their concentration into strong holdings, through amalgamation.

However, due to political pressure as well as to the military events of that time, only a minor part of these goals and endeavourings were realized up to September 1944. Yet many of these and other legislative and administrative measures - which bore the stamp, equally, of the war economy and the nationalistic policy - created rather a state of confusion in many respects. Settlement was postponed until after the war. However, the Armistice, as well as the Russian

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occupation thwarted these plans, and -as formerly mentioned- it thus offered the Russians more legalistic pretexts to justify their de facto monopoly.

The old policy of increasing the oil production was continued all during the war and -under the then prevailing circumstances- everything possible was done towards this goal. This is evident from the fact that drilling activities in 1942 and 1943 came very close to the unprecedented peak of 1937.

Export prices on a certain quantity of oil products were bound by the Oel Pakt. But the Germans only partially respected their obligations under this agreement. The armament prices were rapidly increased and were not in proportion to those of the oil products. According to a conservative calculation, Romania paid at least 30% more for the German armaments than had been agreed under the Oel Pakt. This caused a critical loss to the Romanian economy and weakened her war effort. With the view of compensating for the low export prices and the financing of the war, the inland prices were kept at a high level. All in all, the State disposed of and directed most of the oil exports according to war necessities, and also controlled the prices.

It is obvious that all these measures and restrictions in many respects altered the pre-war conditions in which private capital operated. The policy of high taxation to finance the war hampered the oil companies in making the pre-war high profits. Nevertheless, their balance-sheets showed, all during the war, profits of at least 12% to 20%, not to mention some trading companies that realized conjecture prices. But the high taxes did not permit them to divert substantial shares of their profits into redemption funds and thus to continue the pre-war policy of speed amortization of their investments.

Despite the fact that the State itself was obliged to

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finance its exports to Germany through the National Bank, the private companies -owing to some satisfactory arrangements- did not too heavily feel this financial dependence. The real difficulties started only after August 1st, 1943, e. g. the first and subsequent bombardments of the Romanian oil fields by the Allied Air Force. The reservoirs and some of the installations have been, to a certain extent, preserved, as a result of the protection walls built up earlier by the Germans. In the main, the refineries were badly damaged or ~~xx~~ some were even completely destroyed (it would appear that they were the main target).

As, on one hand, neither the companies' own funds nor the credits granted them by the State were sufficient to reconstruct and repair the damages, and, on the other hand, the volume of new damages caused by subsequent bombardments ~~was~~ ^{had} not been foreseen, there was created in December 1943, through State initiative, a common fund for reconstruction of the oil industry. To this, the State contributed 25% (mainly by raising the oil prices for domestic consumption), the oil companies a further 25% (in proportion to their daily production) and the remaining 50% was to be covered by the German Government. The State overpaid its share. The oil companies complied only for the first year, and from Germany there was little realized.

The total damages amounted to some 25 billion lei (1944 value). Credits to help the reconstruction programme were granted by the State, both before and after the Armistice, to an amount totalling 9.2 billion lei. Of the remaining more ~~xx~~ than 60% damages, no compensation has as yet been given, notwithstanding the fact that after September 1944, the Bulk of the credits granted went mainly to Romanian and Russian corporations to assist, primarily, in this reconstruction.

To summarize, due to the subsequent calamity which occurred -the bombardment of the oil fields- the private companies were necessarily compelled to act in accord. This

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situation therefore provoked the need for greater intervention by the State into private business as well as placing upon the latter a greater financial dependency with regard to public credit. The Armistice thus found private capital already greatly weakened and dependent upon the State.

2) After the Armistice.

The greatest problem created under the obligations of the Armistice Agreement was to find ways and means to finance the reparations paid to Russia. The public means were already weakened and, shortly afterwards, completely collapsed. A scapegoat had to be found, and for this rôle private capital was selected. Hence, the period after September 1944 could be called that of the policy of "robbing private capital".

With the view of coping with the tremendous reparations payments pretended due them by the Russians, the oil prices at the refineries have since been kept very low and the domestic prices high. They were fixed by law and modified at infrequent intervals. The payment for the delivered oil products had been made by the Finance Ministry, and the too numerous formalities and procedures required, continuously increased the period of payment to more than that of 45 days originally stipulated. To this was also added the additional handicap of the Russian habit not to deliver documents of acknowledgements for the oil deliveries, which was another reason for further delays. In the meantime, rapid inflation was quickly diminishing the purchasing power of the amounts due to the oil companies. Moreover, despite the fact that it was the practice of the State to withhold funds due to the oil companies for oil deliveries, it refused to permit the taxes owed by the companies to be deducted from the amounts owed them by the State, as at this time, the State Treasury was in serious need of the receipt of immediate funds for fulfilling the reparation penalties.

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The oil industry was by far the most important as well as the most certain source of taxation. Therefore, the combination of low prices and high taxation, ~~which the oil companies~~ ~~very hard and rapidly consumed their assets~~ the long terms of payment and the monetary inflation hit the oil companies very hard and rapidly consumed their assets.

New losses have been inflicted by the double price policy being practised by the State, in which prices for oil products were raised 80% while those for oil materials and needed services for the oil companies were raised to more than 300%.

This policy resulted in a peculiar situation. Since discrimination between Romanian and foreign capital was hardly possible, all investors had to be treated similarly. Thus, British, United States and French interests found themselves in the paradoxical position, after September 1944, of having to pay substantial reparations to their ally-Russia !

Balance sheets of the oil companies for 1945 and 1946 show only losses. Funds of the oil industry were so limited that beginning with 1945, most of the companies even had to borrow the money necessary for emolument payments. Credits became scarcer every day and after the nationalization of the National Bank and the inauguration of the policy of directed credits, these were granted only by approval of the Finance Ministry. After the stabilization, the national credit fund became very small indeed -owing to deflation and expropriation policies- and absolutely controlled by the State. Thus, the private oil companies could neither accumulate nor borrow necessary funds with which to acquire the materials or equipment and to compete for the acquisition of new oil fields. Their competition has little by little been made impossible, and thus a vacuum was slowly created into which the Russians entered without any hindrance.

And yet, the inroads into the private sector of the

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economy have not been limited solely to those financial aspects : State control and political interference completed the job.

The Mining Ministry appointed various Control Administrators over the larger corporations whose duty it was to supervise the production and distribution of oil products as well as their management. To those firms which had German participation, or belonged to persons considered to be enemies, or which were located within areas occupied by German troops in September 1944, there were appointed CASBI Administrators who actually received orders directly from the Soviet Control Commission. They were appointed or removed only by order of the Soviet authorities.

Means of transportation belonging to private companies were subject to Russian expropriation as were those owned by the State. No discrimination was made between Romanian and foreign corporations or interests.

Furthermore, in some parts of the oil field regions, local Committees for the application of the agrarian reform took possession of oil fields that were -in many cases- paid for and owned by foreign corporations, for the purpose of their redistribution as agricultural lands.

However, the most important tool in Russian hands has been the Communist Party. This helped in the expropriation of foreign and private interests through the medium of Syndicates and Factory committees. They did, for Russian purposes, a perfect job up until late in 1947, when they became useless and were actually abolished. The Syndicates helped primarily to weaken the big foreign companies, by chasing the specialists (as they were not "democrats"), by inroads into the administration or thwarting plans for fulfillment of their conservative production programmes.

Another means to exercising pressure upon these companies was the workers incessant demands for pay increase. They were, no doubt, justified to a considerable extent by reduced

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purchasing power of wages, caused by inflation, below 50% of that of 1938. But the Government's price policy rendered impossible continuous increases in wages and salaries. Quite frequent "spontaneous" strikes as well as the obligation of the employers to pay salaried absence from work, who were summoned to be present at manifestations of Soviet-Romanian friendship, or in demonstrations of protest against both Fascism and Capitalistic Imperialism, inflicted upon them further financial losses.

3) The Monetary Stabilization (August 15, 1947)

The open stripping of private capital practised concomitantly with the monetary stabilization is nothing more than the result of the conditions prevailing in the Romanian economy since the armistice and this alleged stabilization was merely the inavoidable readjustment of a community that has overspent. The way to it has been long and carefully prepared by the Russian reparation policy.

As all the rest, the petroleum industry has also been strongly hit by the enforcement of Law 303 of August 27, 1947. This law ordered the recalculation -within ten days- of all the assets of private corporations for the period of January 1933 until December 1947, according to coefficients of exchange and regulations which were very unfavourable for the undertakings. This is not the place to enter into the technical details of this law. Yet, mention must be made of the fact that the coefficients differed and have been repeatedly changed according to the interests and purposes of the State. For instance, the exchange rate of old lei into stabilized lei was 20,000 : 1. However, that applied to unpaid rents for fields used by the oil companies as well as unpaid taxes, fees, fines, etc. were recalculated, retroactively, at the rate of 3,000 : 1.

The law specified that the minus differences stated

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after the computation, had to be -until sometime in 1949- ~~it~~ either covered by the shareholders or the company's capital was proportionally lowered ; if contrary, the undertakings would be liquidated by law. The shortage which followed after stabilization was established, however, made impossible the covering of the differences, As for the process of reducing the capital, the socialization -which followed ten months later- rendered it futile. Needless to say, this piecemeal recalculation of the private assets actually obliterated most of the funds and investments of the private companies, yet the Soviet goods and interests were completely exempted from complying with the provisions of this law.

A further law provided the compulsory cessation of all ~~new~~ foreign monetary funds and of the deposits in foreign countries ; also the creation of a State monopoly on all such means, present and future. The oil companies were damaged not only by the practice of a low official rate of exchange but also by cutting them off from all their business relations and their foreign credit sources. Needless to say that these provisions did not apply to any of the Russian companies or interests in Romania. As for Sovrompetrol -and other such joint corporations- there has already been explained the privileged position created for it by the Charter, inasmuch as this company had the right to dispose freely of all its foreign funds obtained through the export of oil products.

The price policy has not been basically changed since the stabilization, and its objective was still the same : the expropriation of private capital.

The Romanian Government currently is practising a three-fold price policy :

a) Prices for oil products at the refineries were fixed after the stabilisation and have remained unchanged since. They are from 250% to 300% higher than those of 1938 and,

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thus, a little higher than ~~the~~ current world prices. As a direct result of the high transportation tariffs practised ever since, prices for domestic consumption are from 400% to 500% and even higher over those of 1938. In comparison with post-stabilization level of wages and salaries (mostly below that of 1938), they are, without any doubt, much too high. The general pauperization compelled the State to overburden with taxes on the domestic consumption and, particularly, the products of prima necessity. But these high taxes on oil products for home consumption demonstrate, at the same time, how unprofitable this branch of the Romanian economy is since it became a Russian monopoly. By such means, the State tries to compensate -at least, in part- the low prices paid for oil deliveries to Russia and to accumulate funds for new investments in oil industry. The first, and last, list of price reduction of October 1948 for some articles of domestic consumption did not include any oil products.

b) Export prices to countries other than Russia :

The initial export prices fixed in August 1947 were, two months later, drastically reduced by 68%, with the view of bringing them down to the world price level. This meant, firstly, a recognition of the failure of the monetary stabilization programme, inasmuch as it was by this step publicly admitted that the USA \$ is not 150 lei worth -as had been fixed by the official rate of exchange- but actually 252 lei. It demonstrated also that the barter trade system is not a paramount remedy for the Soviet type of economy, as we are told every day.

Besides the official price reduction, the Government created a Fund for Exchange Equalisation, which is nurtured by special revenues, and by which means the export prices of Romanian products could be adjusted -when necessary- according to level existing in the foreign markets.

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c) Export prices to Russia are twofold : those applied to oil paid as reparation, and those practised for commercial exports. The former are figured, since January 1945, on the basis of international oil prices of 1938 plus 10%. Yet, this rise of 10% was overwhelmingly annulled since by the penalty interests of 5% per month or 60% per annum, paid for late deliveries of other goods. Presently, these prices are not higher than approximately one-third of those practised in Romania in 1947.

Those practised for commercial exports are expressed by so-called "basical prices", a formula which attempts to suggest that a sort of magical yardstick has been discovered to measure the value of the economic goods in an absolute and constant relation to each other, disregarding the variations of prices or evolution of economic necessities, and of the law of supply and demand. When compared with present prices in practice in Europe and in the Mediteranean area, they show that Romanian export to Russia is at least 30% cheaper (that applies especially to timber lumber and oil products). No price fluctuation is allowed or practised. Only the kinds and quantities of goods interchanged are altered solely according to Russian necessities and initiative. Consequently, this barter agreement has not even the advantage of the Oel Pakt, for this latter provided, at least, that petroleum products shall be exchanged for armament.

The Soviet Government granted to Romania, in 1948, a credit in goods with quarterly paid interests of 5%. This means that the prices for goods bought recently by Romania for 15 million \$ from Russia are 5% more expensive than even those "basical prices". Therefore, the prices paid by Russia for Romanian oil in commercial export appears to be not much higher than that paid for oil as reparation.

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Besides the legislative measures taken against private capital, such as expropriation by a completely uneconomic price policy, the limiting of its profit to a maximum 7%, etc. during the ten months between the stabilization and the socialization, there were also applied a series of measures which predicted and paved the way for the socialization. We confine ourselves however only to underlining at this point the excessive taxation, the deeper State control and authoritative interference in the operations of the private oil companies as well as the sequestration of their tools and working equipment.

When, in October 1947, the present Finance Minister returned from Moscow -where he received new instructions- a wave of unprecedented and ruthless fiscal policy was inaugurated. This began with a law under which the Finance Ministry was empowered to recalculate the taxes due and even those already paid for the past year or longer, and to compel the private companies to disburse the difference without delay. By this method, the Finance Department proposed to combat and uncover past fiscal evasions. And this, in addition to the disproportionate recalculation coefficients for taxes due, ordered by the stabilization law.

Some taxes and fees have been raised anew and a complementary tax was decreed on profits from trading and industrial activities. All taxes are payable monthly. If not paid on time, they are raised from 10% to 30% and if three months or more ~~more~~ overdue, heavy fines are applied. As a result of the price policy and the scarcity of money and credits which followed after the stabilization, a significant proportion of private corporations have not been able to fulfill the new fiscal burdens and have been either sequestered or liquidated or, on their own initiative, have requested juridical liquidation. With this result, the law attained its first goal. The second was to create the excuse for withholding proper compensation for socialization, and which will

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be further discussed below.

Yet, this new fiscal policy was not applied to Sovrom-petrol and any other Russian companies and interests in Romania. More than that, in March 1948, the Government decreed that this category of corporations would be taxed the same as State undertakings, e.g. very low and -with the view of protecting them from any fiscal annoyances- there was bestowed upon them the privilege of being taxed provisionally until they would be in a position to close their fiscal balance sheets.

Besides the guardianship of the Syndicates, the authority of the Mining Department and the encroachments of the Price control and Fiscal authorities, etc., there was established, in June 1947, by the State, the so-called "Industrial Centrales" into which the oil companies were forcefully grouped. By their medium, the Mining Department controlled, directed and supervised the production ; but actually they were the organizational frame for the coming socialization.

Late in December 1947 there was instituted the State "Committee for Petroleum Co-ordination" which was charged particularly with the distribution of oil products in home consumption; ~~and~~ this is tantamount to applying new measures for its lowering and, thus, increasing the quantities for export.

Finally, in February 1948, there was founded the State corporation "Petrolex" in which there has been vested ever since the exclusive monopoly for oil export.

Concomitantly with this set of throttling legalistic and administrative measures, there had ~~been~~ earlier been direct attacks delivered against foreign interests. On December 12, 1947, "Astra Romana", the biggest oil concern in Romania and the not less important "Unirea", controlling together nearly 40% of the entire oil production and owned by the Royal Dutch Shell Co., were put under State control. This step was officially justified by the reason that these com-

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panies "sabotaged" the State petroleum policy, practised oil theft, showed deficits caused by bad management, etc.

As is well known, the expression "sabotage" is very dear to every Soviet-type of economy. For it has- in its present stage of limitlessness and close metaphysical meaning- elastic facilities for covering up bureaucratic incompetence and the shortcomings of an inefficient Soviet economy. As for this particular case, the absurdity of this assertion can be demonstrated by the evident fact that at that time and thereafter, the State petroleum policy had no other goal save to help the extension of the Russian monopoly and the creation of a framework for the coming socialization.

The last reason may need no comment, but to the second one must be added the remark that oil theft is neither surprising nor for the first time being practised in Romania. This is an old policy applied by foreign capital everywhere and one of the consequences of the competition and struggle for oil resources. Actually, it is no less than an established feature of the "oil morale", and the Russian policy is still worse.

Going back to the foreign interests and the measures taken in December 1947, it is noteworthy to also mention that the accusation of sabotage was based mainly on the fact that the foreign corporations had not accomplished the objectives of drilling and production fixed for them for 1947. Many of these quotas were -from both technical and economic viewpoint- unattainable and would have resulted in inflicting losses to private companies, unless they had not adopted a socialistic method of economic calculation and, consequently, the unavoidable losses covered by public funds.

Previously, the Mining Department gave to Astra the choice to either enter into partnership with Sovrompetrol for the exploitation of some isolated areas, consolidated long ago under its name (of which mention was made above) or to lose all rights to those areas. The company refused and its rights were, as a result, cancelled.

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In them appointed "Administrator of Supervision" there was vested certain powers that unabled him not only to veto decisions taken by the General Assembly and the Board of Directors, but actually to nullify their rights and even to dismiss board directors.

Approximately the same time, the Law for organization of the Geological Institute of Romania was modified and, among other novations, there was also included the provision under which the private oil companies were required to submit their detailed prospecting research and plans to this Institute and to other State authorities. This was tantamount to depriving them of their exclusive right to the results of their exploratory work and investments.

In December 1947, the State ordered a census of the entire private sector of the national economy which clearly heralded the future socialization, for on the returns of this census have been based further factual measures taken since. Then, all the refineries but one, situated in the district of Bacau have been closed. In April 1948, all oil and gas industries were ordered to bring together all their working tools, equipment, materials, transportation, even to merge their oil fields and administrations, according to a rationalization plan worked out by the Mining Department. The production itself was concentrated on eight exploitation blocks, headed by the larger corporations, in collaboration with and under the supervision of the Industrial Centrales. The 1st of June of the same year, all machinery, materials, tools, etc. belonging to oil companies were blocked and put at the disposal of the Mining Department which had the right to use them, freely and without compensation, for State production programmes. This action was deliberately taken only with the purpose of freezing these assets before their socialization, which folowed ten days later.

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IX.

SOCIALIZATION AND ITS AFTERMATH.

The Law of June 11, 1948 socialized, firstly, all subsoil wealth and resources and then, among others, 32 oil and ~~methan~~ methan gas companies, including all their assets and rights, all subsidiary undertakings as well as those ~~thax~~ permanently required by the companies' activities. Their shares and participations passed into the State patrimony.

From socialization there was, of course, excepted everything that belonged to ~~mx~~ the Russians, e.g. none of their shares, assets, oil fields concessions, refineries, etc. were affected by the provisions of this law.

As for the liabilities of the socialized corporations, the State assumed theoretically the responsibilities of all their obligations. However, it reserved for itself the right to discriminate and annul, during the coming six months, all liabilities constituted in favour of the owners themselves and any alien.

For a better understanding of this provision, it is necessary to underline that many oil corporations were financed by silent partners, either in the form of shares acquired by new subscriptions or by credits granted through foreign banks for acquisition of equipment or machinery abroad. The amount of such liabilities was - despite war transformations - not too insignificant. In 1936, for instance, 76% of the capital invested in the Romanian petroleum industry belonged to foreigners and this interests were only partially represented by shares; the remaining part was registered in credit accounts. Then, there were the untransferred dividends for the past years, etc. The State enabled itself to cancel all these liabilities of the socialized companies, without compensation, if it so wished.

From the remaining obligations there must be further deducted debts not registered as passive, undiscovered fis-

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cal evasions during past years, creditor liabilities as well as those amounts which would be considered as damage done to the company as a result of poor or inefficient management. These reasons were ideal for the State to justify its cancellation of practically all the liabilities of the socialized corporations. However, the last one deserves a special stressing as during the last few years private companies have been gradually deprived of their right of free management.

The Socialization Law also provided that, in the future, the right to begin new undertakings and grant concessions of any kind would belong exclusively to the State. With this, the Soviet system was completely introduced in Romania.

So much regarding the Socialization law. It would, of course, be of particular interest to know what happened to the compensation due on the socialized goods and interests. With a view of indemnifying the owners and shareholders, the State established a "Fund for the Nationalized Industry", nurtured with the profits collected by the socialized undertakings, now under State management. They had to be gradually compensated out of this fund. Its operation was governed by the provisions of a later decree and according to which the funds was to be administrated as an Autonomous Public Institution. Yet, two subsequent measures ~~rendered~~ rendered the original provision caducous.

Within the Budget for 1949, there was appropriated an amount of only 100 million lei for such purposes, in comparison with a value of many billions lei which were worth the socialized goods and interests. Furthermore, by a law of February 10, 1949, it was decreed that the entire profit of all the socialized companies must be paid to the Finance Ministry for its use for definite purposes, but which did not include increasing the amount of the fund.

But appropriation of substantial amounts for compensatory purposes became superfluous by then as, during the second half of 1947, the companies were overburdened with huge

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finances for "past fiscal evasions", bad management, etc. which reduced the obligation for compensation to diminishing figures.

What was the picture with regard to capital interests in the Romanian petroleum industry after the socialization ?

The State already contributed into Sovrompetrol with the total capital of 25 companies, that is lei 2.5 billions

Then it owned also the total capital of 18 socialized companies in value of " 7.5 "

It further owned, together with the Russian Administration, in the capital of eleven companies a share of 1.6 "

Total Romanian capital : 11.6

The Russians contributed to the capital of Sovrompetrol with 2.4 " as showed in chap. VII.

They own furthermore capital shares of 0.8 " in several other companies, run by their "Administration of Soviet Goods and Interests in Romania"

Total Russian capital : 3.2

Total capital in the whole oil industry: 14.8 "

This estimate is, however, not quite accurate, as not all the corporations have published their recalculated and computed ~~their~~ capital after the stabilisation. Therefore, this estimate includes, unfortunately, both old and actualized capital. The Soviet share is nearly 30% of the total capital. ~~But~~ ^{However} the real influence exerted over the production is not proportionate to these capital interests, but far greater.

As for the socialized group, it has gone during the last year through a series of changes. After removing the remaining part of mere nominal private competition, the new oil policy now is striving to rationalize and concentrate the exploitation within big units of production and administration.

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From the management point of view, the companies are concentrated in the two Industrial Centrales and these, in turn, are direct organs of the Mining Ministry. The latter has meanwhile been reorganized three times in view of a better adaptation for its new functions. For, the Mining Department changed from a purely administrative and governing Department to a simple executive unit which carries out in detail the mining and oil policy instituted by the Government and the State Planning Board (established in July 1948).

From the exploitation point of view, the concentration proceeds somewhat slower. Some of the socialized undertakings have been liquidated or merged with other corporations, thus forming larger units. A few installations were dismantled, removed and distributed for use where the necessity was greater and more urgent, not to mention equipment, tools, etc. which were inventoried long before socialization and are now centrally distributed. The petroleum industry seems to have experienced an acute scarcity of such materials and equipment, as all such materials which were still in private possession and ~~inventoried~~ inventoried in the census of December 1947 and the subsequent ones, were sequestered and put at the disposal of the Industrial Centrales. But their quantity was little indeed. A further step was taken in January 1949, when custom taxes on import of oil equipment were reduced by 50% e.g. their prices were reduced by 25% to 30%. These are expected to arrive only from free European countries.

The exploitation units (the socialized companies) are managed in accordance with State plans and treated rather like Autonomous Public Administrations. They are managed by a Director with absolute powers, appointed by the Mining Ministry. From the financial viewpoint, they have budgetary autonomy and are put under the control of the Finance Department. For the exact fulfillment of the production plan, these units are under the authority of and responsible to

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the Mining Ministry. Finally, they cannot declare bankruptcy.

The trading and the distribution in domestic consumption has been monopolized and concentrated, ever since June 1948, in the holding company "Competrol". This State organ took over the assets and branches of the former companies Distributzia, Aragas and Unirea.

The petroleum industry is financed by public means and through the State budget ; in other words, a complete socialistic system. Following abolishing market standards, the profits are calculated according to State directions and, therefore, are considered the same as fiscal revenues. These are deposited monthly in specific State Banks, supervised by the Finance Ministry. Necessities are covered through these banks on order of the Finance Department and after previous authorization has been given by the State Planning Board. Out of the total credits in the amount of 35 billion lei granted in 1948 for productive works, 25% was spent for the petroleum industry. At the beginning of 1949, new credits of 3.5 billion lei were granted for accomplishing the "structural rebuilding of the refineries", for which purpose some ~~fixment~~ dismantelings had begun earlier in 1948.

Judging on the basis of the present existing situation, concentration within the Romanian oil industry became a mere necessity. The administrative set-up seems to have already reached its peak. As for the technical concentration, nothing can be predicted, as final Russian plans are unknown. In any case, such a process should and would be seriously hampered and delayed by the critical scarcity of necessary equipment and machinery.

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X.PROSPECTS FOR THE ROMANIAN PETROLEUM INDUSTRY.1) Oil reserves.

The best ~~yardstick~~ (and almost the only) yardstick for appraising the prospects of a country's oil industry is its oil reserves and their geological condition. If these elements are known, a fairly accurate prediction can be made as to the length of the production period as well as to its rentability and productivity. The oil products are international items and their prices are mostly dictated by the quotations of the Gulf Coast Bulk Market. Therefore, they cannot be sold or bartered at a price level higher than these ceiling prices. Hence, the more costly the exploitation of certain oil fields will be, the lesser will be the profit of the petroleum industry itself and also the incomes and revenues of the national economy.

If these standards are applied to the Romanian oil industry, it necessarily results that its prospects are not very bright, for the hitherto available estimates regarding her oil resources are not too optimistic. In 1935, the Head of the Geological Institute estimated that all the oil reserves amounted, at that time, to approximately 61 millions tons and that at a yearly extraction rate of 8 million tons (the average level of 1935/6) the oil reserves would be exhausted by 1942. But the continuous rise in oil production since the First World War did not predispose the Romanian Government and the oil industry to pessimistic outlooks. The prediction was received with varied feelings and the activity continued. Only afterwards, during the years following, when there was an alarming decline in the extraction rate (from 8.6 million tons in 1936, it dropped to 5.8 million tons in 1940), their attitude was somewhat reversed and many pessimistic opinions have since been expressed on this

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matter. X

A latter -and probably more objective - study, estimated the oil reserves, at the beginning of 1938, as follows :

Of 7,530 hectares known reserves, only	1,900
were still intact, and approximately	1,200
were considered as practicable reserves.	
Therefore, the total <u>sure reserves</u> were	3,100
hectares, of which an average ratio of 10,000	
tons per hectare represented a petroleum re-	
serve of	31,000,000 tons.

The probable or potential reserves, located in proximity to areas of sure reserves (almost entirely located in the districts of Prahova and Dambovitza), some 6,200 hectares, with an average of half of the sure reserves, e.g. 5,000 tons per hectare, in oil

	31,000,000 tons
Total sure and potential reserves :	62,000,000 "

To these, there should also be added the possible reserves within an area of nearly 22,500 hectares, located between the rivers Buzau and Dambovitza with a possible value equivalent to maximum 3,500 hectares sure reserves, in oil

	35,000,000 tons
Total :	97,000,000 "

According to some very broad inductions, there should be some additional 200,000

hectares, located alongside the subcarpathian region from Buzau northwards to Moldavia and Bucovina. By analogy with the oil fields from Galitzia, they might be estimated at 100,000,000 tons But their extraction would be so

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expensive and risky that it would not be worthwhile, under any circumstances, to begin any experimental prospecting.

Until the end of the last war, nothing was known about possible oil areas in Oltenia and Transylvania. Yet, the Russians, in 1946, insisted on their being granted prospecting rights over wide areas located in Western Transylvania. As the results are unknown thus far, their demand and particular interest seems to be based rather on the assumption that the Hungarian geological structures are extended deeply into Western Transylvania and, therefore, that those areas might have a similar value.

The extraction from 1938 until 1948 totalied nearly 55,000,000 tons oil. In view of the fact that since the Armistice Agreement only the sure fields have been exploited -due to lack of equipment and tools- and that exploration activities have been reduced considerably during recent years, the amount mentioned above could be deducted almost solely from the sure reserves. Consequently, the latter should have shrunk in 1948 to 6.5 or 7 million tons.

At that time, sure reserves were divided among the named oil companies, as follows :

Astra Romana	2.5 million tons
Concordia	1.0 "
Romana Americana	0.6 "
Creditul Minier	0.5 "
Steaua Romana	0.45 "
Unirea	0.45 "
Colombia	0.4 "
Prahova, Petrolina, Xenia	0.4 "
All the other companies	0.4 "
	<hr/> 6.7 "

At the time when the Socialization Law was passed, the Russians controlled the assets and reserves of : Concordia, Colombia, the three former Italian companies as well as some other small undertakings, totaling nearly 2 million tons sure reserves. To this, is further added the reserve of 0.5 million tons belonging to Creditul Minier which was one of the

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Romanian founder-members of Sovrompetrol. Therefore, out of some 6.7 million tons of sure oil reserves, the Russians controlled almost 40%.

As for the potential oil fields, it appears that since 1946, the most desirable ones have already been concessioned to Sovrompetrol and to other Russian controlled corporations and, therefore, are also under Russian control. Those remaining after the socialization went under State ownership, and it is within the realm of possibility that they might be brought into the Sovrompetrol orbit, as a further Romanian contribution or be jointly exploited in the future, as certain recent occurrences seem to be leading towards this eventual development.

Concerning possible reserves, Russian attention is focused -as previously mentioned- on those located in Western Transylvania. The oil fields in the district of Bacau have been excluded from the Romanian contribution in Sovrompetrol, which is an indication that the Russians are satisfied that poor soil is there and, at the present time, too expensive for exploitation. None of the possible oil fields in Oltenia have been prospected or concessioned, either to Sovrompetrol or to any of the State companies, and therefore, they don't seem to be of any special value.

As far as those located in Bucovina are concerned, during their first invasion in 1940 of this province, the Russians started extensive prospecting within that area. But the results are not as yet known. Nevertheless, the attention paid by the Romanian State during recent months to certain areas located in the NE part of Moldavia (especially in the district of Botosani), as well as the fact that in the Economic Plan for 1949 some funds were appropriated with the view of continuing exploration and exploitation works on those areas, could mean that some resources have been discovered there. In any event, according to informations published in the Romanian press, there has already been discovered some re-

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sources of methane gas. If all this is true, then it might be assumed that the Galitzian structures are extended into northern Moldavia. Notwithstanding this information, it would be not advisable to draw hasty conclusions, all the more as, for the time being, neither Sovrompetrol nor any Russian-controlled company ~~is~~ is interested in these projects but they are carried out only by the Romanian State. And this means that no prospects for attracting profits appear to be in view.

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What are the logical conclusions which might be deduced from this picture ?

First, that evidently, as a consequence of their reckless exploitation, the sure resources are nearly exhausted.

Second, the present oil field situation, corroborated with the steadily declining production figures from 1937 onwards, demonstrate a rapid retrogression of the Romanian petroleum industry. This is mainly due to the fact that for so many years new investments were avoided. The most elementary proof is the gradual decrease of exploratory activity since 1943.

It requires no great effort to understand that for keeping the production at a satisfactory level, there should be started great exploratory drilling works on a large scale, for which purpose large investments are necessary. And yet, there is no certainty that the results will be in proportion to the investments. In addition, the exploitation of still available sure and of the probable resources become more expensive, as the wells must be drilled deeper and deeper. For both of these reasons, oil production should inevitably become more expensive, and therefore, the profits of the undertaking ~~xxxxxxx~~ and, equally, the State sources of taxation will, accordingly, shrink.

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But the downward trend in the drilling activity is only one feature. An equally important result of the lack of new investments is that ~~much~~ a major part of the machinery and equipment for oil refinery is outworn and obsolete. Due to policies and events since 1939, the Romanian petroleum industry remained completely outside the tremendous technical progress made by other countries.

In 1939, the refining capacity of Romania was 3% that of the whole world ; in 1947, it shrank to 2%. The successive bombardments from 1943 to 1944 reduced it from 26,600 tons a day to 17,600 tons a day in 1947. Yet, the operating capacity of the cracking installations is, presently, less than 6,000 tons a day and able to refine at the most but half of the crude oil production. Moreover, a great part of these installations are old and badly in need of replacement ; some of them were hastily and inadequately repaired after 1945. Especially the primitive and insufficient valorisation of cracking gas ensues a great loss. The same is true, yet to a far greater degree, with regard to the refining capacity for lubricants, of which only 4% works with modern ~~machinery~~ and according to advanced methods.

Owing to the age of the installations, the refining process is, comparatively, very expensive and wastefully uses raw material and many products are of an inferior quality. For their partial replacement and modernization there are necessary at least 40 to 50 million dollars, which would amount to the counter-value of nearly two-thirds of the present yearly crude oil production.

To sum up, the Romanian petroleum industry is at the present time at a critical crossroad and compelled to pay for past errors and squanderings. To restore and bring it up to date, large investments are urgently needed. Nevertheless, even if they were obtained and, also, a more conservative policy practised, a substantial increase in the production could not be expected before several years hence.

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2) Divergent Interests.

Any attempt at a forecast about the future of the Romanian petroleum industry must first be based on the understanding that, at the present time, there are three groups of interests within it, each of them having different objectives.

a) The "Administration of Soviet Goods and Interests in Romania" ^{holds} ~~owns~~ participations in several oil companies totaling in value more than 800 million lei, to which are assets corresponding to a far greater amount. This Administration is interested ~~in making~~ solely in making the highest profits possible and will, obviously, avoid any type of expense or investments which do not promise a high and quick profit. These assets and interests are operated -as already mentioned- on a complete extraterritorial basis, and therefore, the Romanian State does not have the right to interfere with their activities. Thus, the Romanian economy cannot expect to receive any benefit whatsoever from their activities, for threefold reasons :

- their profits are transferred to Russia or other countries and thus, this part of the national income is not used in investments for further increase productive capacity and subsequent employment ~~possibilities~~ opportunities ;

- they are used for acquiring goods in Romania for the same purpose and, in this case, its export capacity is accordingly reduced ;

- the profits of Russian undertakings and participations are practically exempt from taxation, as they are taxed ~~not~~ higher than those of Public Economic Administrations.

b) SOVROMPETROL represents the second category of interests.

This joint company is, since July 1946 -and according to the proclamation of its General Assembly at that time - an

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"International Corporation", enjoying all the privileges pertaining to such a status. Among these are the formerly mentioned exemptions and exonerations and some other "diplomatic immunities". Its goods, interests and own organization are actually treated not as those belonging to a Romanian corporation -as its original Charter provided- but extra-territorial. (As a matter of fact, since socialization, no standard has been available, for there are now only State Economic Administrations). The Romanian State has in this corporation only the rights of a partner, subject to the decisions of the General Assembly. The Romanian Government does not exercise any kind of control over this corporation, as it is not subject to the authority of either the Planning Board or of the Mining Department.

Sovrompetrol is accustomed to negotiating its more important issues and arbitrating its differences with the Romanian Government via Moscow. In this way, it subsequently acquired substantial privileges from the Romanian State. Among them were the amendments of the Charter of 1947, which enable Sovrompetrol to freely dispose of the amounts of foreign currency obtained for its exports, and also, have payment on its profits made in the same type of currency.

These provisions have a far greater importance than ~~xxx~~ would appear at first glance.

First of all, they affect the import capacity of Romania. After deducting the ~~xxxxxxxxxxxxxxxxxxxx~~ quantities of oil products due for reparations and those sent to Russia as commercial export, as well as the minimum required for domestic consumption, not much remains for export to other countries. This remaining small surplus of oil products is the only important item which the Romanian economy is able to barter for capital goods, at the present time. If this quantity is shared with Sovrompetrol, its acquiring capacity is accordingly reduced.

The unrestrained disposition over the amounts in free

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currency obtained from its exports means that Sovrompetrol has been granted a de facto monopoly over the future of the Romanian petroleum industry. This assertion needs further explanation. The quantity of oil products exported by Sovrompetrol represents a major part of the only available means for acquiring oil field and refinery equipment from foreign countries which are either not supplied by Russia nor produced in Romania. For, these are the primary necessities of the Romanian oil industry, and fulfillment of which would help it out of its present crisis. Therefore, those who possess such equipment are in a position to perform drilling activities and improve refining capacity, and thus, to obtain a greater share of the oil production. And Russia worked quite efficiently towards this goal.

So, for instance, besides the marketing of all the royalties and taxes paid in oil which reverted to the Romanian State for the last five years, Sovrompetrol succeeded in being granted, in 1947, a special free contingent of oil for export in exchange of equipment. In spring of 1948, this corporation concluded an agreement with the Italian FIAT with the view of obtaining oil field and refinery equipment against a new special contingent of Romanian oil. It is, certainly, difficult to ascertain whether all these imported materials are actually left in Romania. However, there is no doubt that those brought in are utilized only in improving the working means and in broadening the strength and monopoly of Sovrompetrol over, and at the expense of the socialized sector.

Therefore, the State-owned oil undertakings are actually dependent, to a large extent, on Sovrompetrol aid to enable them to continue their activities, as the productive capacity of the domestic ^{steel} industry is, on one hand, still occupied ~~with~~ ^{for} at least 50% with orders for reparation payments to Russia, and on the other hand, it is not sufficiently developed to produce specialized equipment and machinery.

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Thus, the impact of Sovrompetrol over the Romanian petroleum industry is actually far beyond the nearly 40% of its domestic production now controlled by it. Consequently, there is no exaggeration whatsoever in the statement that the entire socialized sector is dependent on, and directed according to, plans concocted in Moscow.

As for profits made by Sovrompetrol, Russia is entitled to half of them and, naturally, interested in their increasing. The limits of the profits of this joint corporation are elastic however, inasmuch as new privileges or exemptions granted ~~in~~ it are sure ways for their increasing.

The way on which Russia dispose of her share of the profits is almost indifferent for the Romanian economy : if it is disposed of abroad in the form of free currency, this means an irrevocable loss ; if it is used to acquire capital goods to be sent -hypothetically- to Romania, they would increase, under present circumstances, only the Soviet Economic Empire.

In conclusion : the manner in which Sovrompetrol is organized and functions means a mortgage upon the future of the Romanian petroleum industry, and equally, upon Romanian oil exports. This corporationn intends only to continue the Russian monopoly on Romanian wealth after reparation payments have been paid in full.

c) Finally, the third group of interests is that represented by the Romanian economy. After all the previous explanations, it is not difficult at all to agree that its interests are completely opposite to those of the Russians', represented either in the "Extraterritorial Goods and Interests" or in the "International Corporation".

As any other national economy, so should the Romanian be interested, first and foremost, in obtaining the highest national income possible, in realizing the optimum

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in its distribution, and equally, a favourable balance of payments. However, none of these goals have been achieved since the end of 1944. On the contrary, the Russian occupation and the growth of Communism has been in Romania, as everywhere else, accompanied by a persistent deterioration of the economic conditions.

A comparison might help to better understand this retrogression. The national income per capita was in 1938 83 US Dollars and in 1945 only 44 Dollars. During the following two years it dropped still further, inasmuch as the total national income itself was not much higher than 30% of that of 1938.

The State budget for 1935/6 derived 28% of its total revenues from the oil industry. This figure did not include the import taxes on oil equipment, taxes on the incomes of personnel working in this industry, etc. The first budget after the monetary stabilization (1947/8) garnered only 4% to 5% of its revenues from the petroleum field. Finally, under the Plan's Budget of 1949 less than 2% of its revenues are derived from the entire mining industry.

During the pre-war period of 1933 to 1939, the exports of oil products covered between 42% to 55% of the value of total exports. Despite the steadily decreasing quantities of oil products exported since, not less than 62.5% of the value of the total exports from 1940 were covered by this product. During the war years which followed, the respective proportion was constantly over 50%. A comparison between this and the situation existing during post-war years is, indeed, most difficult, as proportions expressed in percentages would only lead to confusion. Therefore, it is better to quote absolute figures. While in 1943 there were exported 2,800,000 tons of oil products, in 1945 only 55,000 tons were sent abroad as commercial exports (e.g. not as reparations), of which not more than 3,000 tons were sent to

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countries other than Russia. In 1946, some 480,000 tons were in all exported ; of this quantity, nearly four-fifths were sent to Russia. In 1947, the figure was somewhat higher than that of the preceding year ; however, most of it was sent to Russia, or else bartered or marketed by Sovrompetrol. In 1948, the Romanian State agreed to send to Poland and Israel several tens of thousand tons of oil products.

These figures clearly demonstrate that during the reparation period the petroleum ~~industry~~ ceased to be an export asset and a source of income to the Romanian economy. But more than that, it seems that it became more of a burden to it, as the amount of credits for investments recently granted to this industrial branch are far higher than all the incomes which it returns to the Treasury.

Notwithstanding the prime financial needs, it is of vital necessity to the Romanian economy that there be instituted and followed a conservative policy with respect to the remaining oil resources . Then, there must be followed and achieved an extensive exploratory drilling programme over a long period of time. The greatest part of the existing obsolete installations must also be replaced, and in this manner, the costly and wasteful process of refining be removed and brought up to date. Finally, extensive action must be started with the view of reducing the domestic consumption of oil products by replacing them with methane gas and coal. This would ~~will~~ adjust the home consumption on a new basis, and create a surplus for export.

This set of measures might be regarded and advocated as the future policy which would enable the petroleum industry to recover from its present critical situation. Taken as a whole, all the suggested measures require a

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forethought and conservative policy, in addition to important investments. Is such a policy possible and applicable in Romania of to-day ?

3) Outlook.

An answer might be found in the Economic Plan for 1949. But perusal of this Plan is not of much help, as it is couched in extremely vague terms, and does not include reliable information for a clear forecast for the petroleum industry. For instance, it proposes a rise in production of 13.7% and an increase in the drilling activity of 48.2% over than of 1948., of which one-third will be dedicated to exploratory operations. Then, it announces that 40% of the total credits for investments will be spent in replacing existing equipment. For this purpose, the domestic steel industry will increase its production by 132% over that of 1948. No definite figures are given and, therefore, it is very difficult to understand (not to mention trusting) much of this roundabout way of expressing social progress in percentages. There are, perhaps, important reasons for the existing political regime not wanting to reveal the "happiness" of the Romanian people. Yet, more recent news from the Romanian press inform the reader that "the proposed levels of production have been reached and surpassed in every sector, due to the efforts of the working class and the adequate measures taken by its Communist leadership". The success of the First Economic Plan, therefore, seems by now to be definitely assured. But has a Socialist plan - in the Soviet era and area - ever failed ?

Notwithstanding this method of presenting plans and achievements, the Romanian press also officially announces that the results achieved by Sovrompetrol during the First Quarter are more encouraging than that of the en-

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tire remaining oil industry. This assertion is is none the less most important inasmuch as it confirms previous assumptions regarding the of Soviet monopoly over the entire oil industry, through the medium of Sovrompetrol.

The substitution of petroleum in domestic consumption seems to make interesting progress ; the network of gas lines has been extended or completed, some industries have replaced oil with gas combustion and new resources are being explored. Judging by information appearing in the Romanian press, it would appear that a gas era has already started in that country, and the domestic consumption will be very soon, to a large extent, be based on gas. All this is, indubitably, very beneficial.

However, two facts must be born in mind in connection with this progress. The first is that the rapid substitution of gas cannot be credited to the present political regime. This programme of substitution had already begun at the end of 1940, and was due entirely to the German insistence and their policy of increasing the surplus of oil exports. The Germans helped in this switching from oil to coal combustion on a number of locomotives, and they delivered, until the summer of 1944, a great quantity of gas pipes and necessary installations. The drilling of gas wells and the laying of pipes network were started and speeded up throughout the war. Since the Armistice, the latter have only been ~~completed~~ continued and completed. Therefore, no new investments have been made towards this goal during the Russian occupation.

The second fact refers to the cui prodest of this substitution, e.g. whether the export surplus created through the decrease and substitution in oil products for home consumption will accrue to the benefit of the Romanian economy. Judging by the previous explanations, it is difficult to believe that this surplus will be used freely or solely in the real interests of the Romanian economy.

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Concerning the urgently needed investments, to fore-quoted facts and conclusions might be added the following: substantial investments are needed not only in the oil industry alone but also in the entire Romanian economy. The speeding up of the industrialization process is the sole solution to both mitigating the growing rural overpopulation and the decrease in oil export. However, owing to the economic system now in effect in Romania -which does not differ from the Soviet system- and to the Russian reparation and monopolistic policy, the investment rate is very low indeed, and drained out solely by strangling the purchasing power of wages paid to the working class, by means of high prices and taxation. An increase in the investment rate can be achieved only by a new lowering of the existence minimum. Possibilities of transforming it into capital goods by acquisitions in foreign countries are -for reasons already gone into- very limited.

Prognostications about the Romanian petroleum industry cannot be made as yet, as its future will depend entirely upon the Russian attitudes and policies to be applied during the coming year. For, according to article 4 B, par.4 of the Sovrompetrol Charter, the oil shares contributed by the Romanian State must be transformed, until August 1950, into corresponding assets. And the respective provision has been drafted in such a way as to enable Russia to underestimate shares and assets, to exclude part of them, and ask for their replacement through new assets. Moreover, the burden of constituting the company's reserve funds lies, obviously, upon the Romanian group. This period of transformation and computation will be a critical indeed for the Romanian oil industry, inasmuch as Russia will decide upon the nominal co-existence of the two separate sectors - the socialized petroleum industry and Sovrompetrol- or the

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forceful merging of both under the control of Sovrom-petrol. The difference between these two hypotheses is, actually, not very great for the oil industry itself and the Romanian economy. However, from a political point of view, the difference is of far-reaching significance.

May 1949.

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A N N E X I.

THE C O N V E N T I O N
for
THE ESTABLISHMENT OF
SOVROMPETROL.

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C O N V E N T I O N

between the Government of USSR and the government of
the Kingdom of Romania
regarding the creation of a Soviet-Romanian company
for the exploration, exploitation, refining and
marketing of crude oil and oil products.

In the execution of the agreement of economic collaboration between the USSR and the Romanian Kingdom, and of the protocol included in that agreement, both signed in Moscow on May 8, 1945

and especially in executing the clauses regarding the creation of a Soviet-Romanian company for the exploitation, exploitation, refining and marketing of crude oil and its products,

The two signatories of the above mentioned agreement and protocol, legally represented at the drawing up of the present convention as follows :

The Government of USSR by the Deputy Commissar for Foreign Trade of the USSR, Alexie Dimitrievich Cruticov;
and the Royal Government of Romania, by the Minister of Mines and Oil, Engineer Tudor Ionescu,
have established the following :

Article 1 - Foundation.

The Government of the USSR and the Royal Government establish by this present convention ~~the~~ ^{of} organization the companies or the groups which will constitute the Soviet-Romanian company for exploration, exploitation, refining and marketing of crude oil and its products as follows :

On behalf of USSR, Obiedinienie "Ucrneft" and Vsesojusnoe Obiedinienie "Sojusneftexport" ;

On behalf of Romania, the Limited Company Creditul Minier and the Limited Company Redeventza, and eventually other companies (see annex) or groups possessing shares of Romanian companies.

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The above mentioned organizations and companies or groups will be given the necessary rights by the respective Governments in accordance with previous domestic agreements as to enable them to conforming in every respect with the conditions provided in the present convention.

Therefore, the two Governments mutually guarantee the carrying out -by medium of the above mentioned organizations, companies or groups- of the conditions of constituting and financing the Soviet-Romanian company.

Article 2 - Status, Duration, Location.

The Soviet-Romanian company for exploration, exploitation, refining and marketing of crude oil and its products will have the status of a Romanian private juridical entity of the type of a limited company, existing in the relevant Romanian laws.

In the course of its activity, The Soviet-Romanian company will have the same rights as any other company with Romanian capital.

The duration of the company is unlimited.

The main office of the company will be in Bucharest.

Article 3 - Purpose.

The purpose of the company will be the prospecting, exploring, exploiting, refining and marketing of liquid bitumen on areas belonging to the Romanian State or on areas belonging to private persons, directly or together with other companies or persons, as well as the refining and marketing of ~~the~~ liquid bitumen products.

Article 4 - Social Capital.

I.- The company will have a social capital of 5,000 million lei and will be covered equally by the two contracting parties mentioned in article 1.

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The contributions of the two parties will be covered as indicated below :

A.-The contribution of the Soviet party :

a) Installations, and necessary material for exploration and exploitation of oil in a total value of 740 million lei, according to a list decided upon by the two contracting parties and approved by the two governments.

The evaluation of the installations, equipment and materials will be made on the basis of average prices in effect in Romania during the First Half of 1939.

b) The shares of the oil companies mentioned in Annex I, in value of 1,760 million lei.

B.- The contribution of the Romanian party :

a) shares or assets of the Romanian oil companies mentioned in Annex II, at their nominal value.

b) ~~xxxxxx~~ 50% of oil fields accruing to the Romanian State as a result of prospecting of new areas, as well as those fields which belong -in accordance with article 95 of the Petroleum Law- to the companies forming the Romanian group in the Soviet-Romanian company (see annexed list).

The above mentioned fields will be brought as a contribution by the Romanian group into the Soviet-Romanian company, according to an agreement to be concluded between the two groups.

The estimate of the oil fields contributed by the Romanian group will be made in accordance with average prices in effect in Romania during the first six months of 1939, by a committee of experts, in which the two contracting parties will be represented by an equal number of members. In case of non-agreement, the committee will send the matter

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for arbitration to the Romanian Government which shall take a decision in agreement with the Government of USSR.

- c) 50% of the royalties reverting to the Romanian State until the contributions of the contracting parties become equal.

The crude oil shall be estimated according to average prices in effect in Romania during the First Half of 1939.

2.- The capital subscribed by each founder-member shall be fully covered within three years from the date of the establishment of the company.

3.- Within two more years from the end of the first term of three years granted for the covering of the subscribed capital, the two founder-members of the company are obliged to transform into assets (equipment, oil fields, etc.) those contributions represented by oil shares

4.- The difference between the estimate of the contributions and their real value, namely :

- a) between the nominal value of the shares and the value of the assets by which these shares shall be replaced within the mentioned term ;
- b) between the estimate value of investments (equipment, royalties, oil fields, etc) at average prices from the First Quarter of 1939, and their commercial value at the time of their transfer to the company,

shall constitute the reserve of the company and taxed - according to provisions of Romanian law- as capital and not as profit, as it cannot be regarded or used as a profit.

As for the transformation of the shares, it is agreed that the assets corresponding to the shares contributed or which will be contributed ~~xxxxxxxxxxxx~~ as a Romanian contribution (point b) above), shall be estimated

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at the nominal value of the respective shares.

The difference between this estimate and the real value of the shares shall be computed at the end of the five-years period mentioned in article 4, points 2 and 3, and also accounted as a reserve fund.

In case when, after this computation, a difference will result between the value of assets ^{contributed} ~~paid~~ in exchange of share, by one of the contracting parties, the group possessing the smaller amount of ~~assets~~ assets shall have the choice either to cover the difference with similar goods, estimated according to the same norms - or will oblige the other group to withdraw the difference, in order to equalize the two contributions.

This equalization shall be operated, when necessary, according to previous agreements concluded between the Soviet and the Romanian group.

Article 5 - Rights of the Company.

1. The Soviet-Romanian company will be granted by the Romanian State rights of prospecting, ^{mining} ~~exploration~~ as well as concessions for exploitation of liquid bitumen in accordance with the laws in effect.

2. The Soviet-Romanian company shall be preferred, on equal terms, at auctions where several offers will be made for the same rights.

3. Besides the mining rights granted by the Romanian State, the Soviet-Romanian company is entitled to exploit also rights of private owners, according to agreements which it will conclude with them and to provisions of laws in effect in Romania.

4. The Soviet-Romanian company is entitled to lay the necessary pipe lines network for carrying the crude oil within the oil fields and from these to the refineries.

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5. After the obligation of contributing the royalties for the purpose of covering the Romanian capital share will cease, the Soviet-Romanian company ~~will~~ shall be entitled to buy and refine those royalties reverting to the Romanian State for oil extracted on the company's own fields, as well as on fields belonging to companies whose shares or assets were contributed into the Soviet-Romanian company.

6. The company shall be granted the most favourable terms, in effect for oil companies, for buying and selling of foreign exchange with the National Bank of Romania.

7. The company will also be given the most favourable terms granted to oil companies by the Romanian State for premiums on their imports and exports.

8. The Romanian authorities shall grant, without any difficulty, to the Soviet-Romanian company the amounts in foreign exchange resulting from its exports paid in such such currency, which are needed by the company for acquiring from abroad the equipment and materials necessary for its operations.

Article 6 - Shares of the Company.

Each founder-member will receive an equal number of shares.

The company's shares will be nominal.

They may be transferred only by authorization of the respective Government.

Article 7 - Administration, Liquidation.

1. The company's management will be carried out in accordance with provisions of the commercial code and laws in effect in Romania, with the exception specified in the following paragraph.

The Board of Directors will be composed of an equal number of members, representing the Soviet and

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THE ACTIVITY
of the
ROMANIAN PETROLEUM INDUSTRY
during the last decade.

Year	Drilling		Tons oil per drilled meter	Extraction	Refined	Home consump- tion	Export.
	for explo- ration	Total					
	in 1,000 m.			in 1,000 tons			
1936		329.0	26.5	8,704	8,043	1,545	6,885
7		394.5	18.1	7,153	6,656	1,621	5,668
8	43	288.0	23.0	6,610	6,217	1,674	4,495
9	22	255.4	24.4	6,240	5,821	1,784	4,178
1940	28	241.5	24.7	5,815	5,469	1,862	3,528
1	37	253.0	22.0	5,453	5,271	1,811	3,683
2	47	344.0	16.8	5,665	5,260	2,097	2,947
3	45	341.5	15.4	5,273	4,914	2,007	2,798
4	31	147.0	23.9	3,525	3,080	1,108	2,116
1945	25	160.0	29.0	4,640	4,764 ¹⁾	1,393	3,158
6	12	135.0	31.0	4,193	4,250 ¹⁾	1,600	2,400
7		164.0	23.2	3,810			
1948 ²⁾	119	320.0		4,500 ³⁾			

1) The difference results from refining a quantity of more than 800,000 tons crude oil, brought in Romania by the Russians, since end of 1944, from Hungary and Austria.

2) Planned.

3) Actual extraction estimated at approximately 3.9 million tons.

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PRODUCTION OF CRUDE OIL SINCE 1936

Year	Production in 1,000 tons	Less than that of the year :										
		1936	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946
1936	8,704	--	--	--	--	--	--	--	--	--	--	--
7	7,153	17.82	--	--	--	--	--	--	--	--	--	--
8	6,603	24.06	7.60	--	--	--	--	--	--	--	--	--
9	6,240	28.31	13.77	5.60	--	--	--	--	--	--	--	--
1940	5,815	33.19	15.37	9.13	4.88	--	--	--	--	--	--	--
1	5,453	37.35	23.77	17.42	12.62	6.23	--	--	--	--	--	--
2	5,665	34.91	20.80	14.20	9.22	2.58 + 3.88	--	--	--	--	--	--
3	5,273	39.42	26.28	20.73	15.50	9.32	3.30	6.92	--	--	--	--
4	3,525	59.50	50.72	46.62	43.51	39.38	35.36	37.78	33.15	--	--	--
1945	4,640	46.69	33.60	29.73	25.64	20.20	14.91	18.10	12.10 + 3.26	--	--	--
6	4,193	51.80	41.38	36.50	32.80	27.90	24.94	25.00	20.47 + 18.95	9.63	--	--
7	3,810	56.23	46.74	42.30	38.94	34.48	30.13	32.75	27.74 + 8.09	17.89	9.14	--
1948	4,500 ¹⁾											

1) Planned.

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RUSSIAN HOLDINGS
in
ROMANIAN OIL COMPANIES.
(Figures in million lei)

Company	Capital of the company	German holding in Sept. 1944	Trans- ferred to the Russi- ans	Later Russian acquir- ings	Total Russian holding	Contri- buted to Sov- rompe- trol	Still in Russian posses- sion
Concordia	1,470.0	755.8	804.7	--	804.7	804.7	--
Colombia	1,140.0	325.0	325.0	650.0	975.0	975.0	--
I.R.D.P.	600.0	100.3	100.7	--	100.7	100.7	--
Petrol B loc	470.0	285.5	285.6	67.3	352.9	285.6	67.4
Sarpetrol	70.0	34.9	34.9	34.9	70.0	34.9	35.1
Continental Oel	100.0	100.0	100.0	--	100.0	--	100.0
Explora	60.0	59.1	59.1	0.9	60.0	60.0	--
Sardep	50.0	43.3	43.3	6.7	50.0	50.0	--
Meotica	26.0	21.3	21.3	4.7	26.0	26.0	--
Buna Sperantza	15.0	14.9	15.0	--	15.0	15.0	--
Transpetrol	8.0	4.4	4.4	3.6	8.0	8.0	--
Doicesti	100.0	36.1	36.1	--	36.1	--	36.1
Moldonaphta	22.0	0.9	9.8	12.2	22.0	--	22.0
Europetrol	4.0	3.1	3.1	0.8	3.9	--	3.9
Romano-Belgiana	60.0	15.0	15.0	--	15.0	--	15.0
Internova	5.0	1.9	1.9	3.1	5.0	5.0	--
Naphta Romana	42.1	--	--	29.6	29.6	29.6	--
Pipe-line Copaceni							
Ploesti	10.0	--	--	10.0	10.0	10.0	--
Fanto Gallia	5.0	5.0	5.0	--	5.0	--	5.0
Prahova ¹⁾	330.0				330.0	--	330.0
Petrolina ¹⁾	168.0				165.0	--	165.0
Xenia ¹⁾	50.0	43.5			43.5	--	43.5
Italo-Romana ¹⁾	12.5				12.5	--	12.5
Petrol Latina ¹⁾	7.4				7.4	--	7.4
	4,825.0	1,806.5	1,864.9	823.8	3,247.3	2,404.5	842.9
	=====	=====	=====	=====	=====	=====	=====

1) Former Italian companies.

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